

FINANCIAL TIMES

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bruises feelings

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Today's Surveys

China
World pulp and paper

Separate sections

World Business Newspaper <http://www.FT.com>

MONDAY DECEMBER 8 1997

WORLD NEWS

EU awaits Gore concession on US greenhouse gas emissions

US vice-president Al Gore is expected to offer concessions in Kyoto, Japan, today to secure a deal on global warming. He is under pressure to reduce US greenhouse gas emission targets and be more flexible about developing countries. The European Union said it was up to Mr Gore to match a softer EU stance announced yesterday. Page 4

Antonov crash kills at least 62
Searchers in Irkutsk, Russia, expected to find more bodies as they sifted the wreckage of an Antonov transport aircraft. Page 4

Hong Kong flu scare
Hong Kong health officials appealed for calm after a strain of influenza previously found only in birds claimed two more victims in the territory, bringing the death toll to three. Page 4

Israeli strike ends
Israeli union officials ended a five-day old strike which crippled public services. Strikers shut down government offices, the stock exchange, banks and the airport, in a dispute over pension rights, privatisation and economic reforms. Page 4

Tensions set to rise
Tensions are expected to mount in the Northern Ireland talks this week when leaders of Sinn Féin, political wing of the Irish Republican Army, tell UK prime minister Tony Blair that the peace process must ultimately lead to a united Ireland. Page 6

Czech political turmoil
Czech president Vaclav Havel will ask Christian Democratic party leader Josef Lux to try to form a new coalition government following last week's resignation of premier Vaclav Klaus. Page 6

Anglo-Argentine meeting
British and Argentine defence ministers were due to meet in London today for the first time since the Falklands war of 1982. Page 6

Albright tours Africa
US secretary of state Madeleine Albright is starting a trip to Africa that the US hopes will herald a new, more dynamic relationship with a continent often marginalised in policymaking. Page 6

MZ cabinet shifts to right
Jenny Shipley, New Zealand's first woman prime minister, reshuffled the cabinet, promoting right wingers and rewarding supporters who backed her against ex-premier Jim Bolger. Page 4; Observer, Page 17

Police chief quits
Philippine police chief Recaredo Sarmiento resigned amid public anger at recent kidnappings. Page 4

Skydivers end in tragedy
Three skydivers on an adventure tour plunged to their deaths at the South Pole when their parachutes failed to open, according to trip organiser Adventure Network International of Canada. Page 4

Traffic halted
Two dogs skilled in sniffing out truffles were poisoned in a vicious war between hunters of the fungus in Umbria, central Italy. Top quality truffles fetch about £2.5m (\$1,400) a kilo. Page 4

Chain store's new head
British retailer Marks and Spencer has appointed a resident poet. Page 6

World Cup sabotage attempt
Saboteurs tried to cut off electrical power at last week's televised World Cup soccer draw. Police were called in after workers discovered intruders had broken into a power transformer near the Velodrome stadium in Marseilles, southern France. Page 6

BUSINESS NEWS

Italy plans shake-up of corporate governance

Italy will this week launch its most concerted attempt yet to reform the way the country's major companies are run, announcing new proposals on corporate governance and takeover law. Page 18

Crédit Lyonnais, the French state-owned bank, could be partially privatised within the next six months, under plans being discussed between executives and the government. Page 19

European Union energy ministers will attempt to agree plans to open part of the EU's \$100bn-a-year natural gas market to competition. Page 2

Produce, one of France's largest supermarket chains, is to take a stake worth £1.60bn (\$225m) in GS, Italy's third-largest supermarket group. Page 19

The London Stock Exchange may make changes to its trading hours and the way it calculates closing prices, following wild swings in recent dealing. Page 6

UK government bond market catches up with its main rivals today with the introduction of trading in "stripped" gilts. Page 18; Lex, Page 18

Competition in Europe's telecommunications markets is in danger of being stifled by widely diverging interconnection charges, according to a study by a UK consultancy. Page 18

Almazay-Rosel-Sakita, Russia's biggest diamond producer, has seen its \$500m loan facility arranged by western banks led by the UK's NatWest Markets collapse. Page 18

Blackstone Group, the US investment institution, will announce it has concluded one of the largest commercial leasing agreements ever in France. Its affiliate, Descartes Défense V, has negotiated a new \$275m lease to house IBM's European headquarters in Paris. Page 22

LTV, the UK independent vehicle maker, is in talks with JCI about a bid for the South African mining group in a move that would remove an unwanted shareholder from LTV's register and achieve the same benefits as a large buyback. Page 19

Fedwire and **Chips**, the New York bank payment systems which together handle \$2.500bn of cash transfers a day, were due to open at 12.30am today to make the flow of money around world payments systems safer. Fedwire will open for 18 hours, overlapping with European large value payment systems and giving a small overlap with Japan. Page 2

DPS, the San Francisco-based global retailer, is considering a bid for Barney's, the US department store chain under bankruptcy protection. Barney's has already agreed to a \$247m deal to sell 51 per cent to Dickson Concepts, the Hong Kong retail group. Page 22

China has offered to ease foreign access to its banking, insurance and distribution sectors during talks in Geneva on its 11-year-old application to join the World Trade Organisation. Page 3

Philippine inflation rose from 5.7 per cent year-on-year in October to a 14-month high of 6.5 per cent in November after fall-out from the Asian crisis, according to government figures. Page 4

Swiss merger set to create second largest bank in world

Combined SBC and UBS to
have assets of nearly \$600bn

By Jane Martinson in London
and William Hall in Zurich

Swiss Bank Corporation and Union Bank of Switzerland are expected to announce a full merger today in a deal that will create the world's second largest commercial bank, with assets of nearly \$600bn.

The new company, likely to be called United Bank of Switzerland, is also set to become the world's largest fund manager and private banking operation with assets under management of \$571.300bn (\$915.4bn).

The new group will be valued at \$578.3bn, based on Friday's closing share prices.

Considerable overlap in the European investment banking businesses of the two groups is expected to lead to 5,000-7,000 job cuts in the combined investment banking divisions, which employ between 18,000 and 20,000 people worldwide. London is expected to be hit hardest by job cuts.

In the domestic Swiss banking operations cuts estimated at between 4,000 and 5,000 are likely to be phased in to satisfy domestic sensitivities.

The combined group will employ some 55,000 people worldwide before the cuts.

UBS is the biggest Swiss bank in terms of domestic retail banking with 2.6m customers, compared with Credit Suisse's 2.4m and Swiss Bank Corporation's 2.2m.

The big banks already face strong competition from the 24 cantonal banks and new legislation means the Swiss postal savings bank is going to become a powerful competitor.

Nevertheless, UBS is determined to remain a strong player in the domestic Swiss market. Swiss Bank Corporation, by contrast, has always been regarded as the least committed of the big three to Swiss retail banking and

has the least to lose by throwing in its lot in this area with UBS.

UBS is also the Swiss market leader in private banking. The only area where UBS really lags behind SBC is merchant banking. One company insider said UBS had decided to restructure its investment banking division after the \$36bn merger between Credit Suisse and Winterthur in August.

Several key appointments are understood to favour SBC board directors. Marcel Ospel, SBC's chief executive, is expected to become chief executive of the combined group while Mathis Caballavetta, the UBS president, is to be group chairman.

Johannes de Gier, the head of SBC's investment banking division, is to take control of the group's combined investment banking operations.

Gary Brinson, who joined SBC when the group took over his Chicago-based asset management company two years ago, is to take charge of the asset management operations, which include PDM, one of the UK's largest pension fund managers.

Rudi Bogni, the head of SBC private banking, is to head the combined groups' private banking operations.

The extent of the overlap, particularly in equities and corporate finance, has prompted speculation that part of UBS's business will be sold.

The deal, which has to be put to shareholders in February or March, will form a new company through a straight share swap with UBS shareholders offered about 60 per cent of the new company.

Any deal between the two would have to win clearance from the Swiss and European competition authorities.

\$500bn question, Page 17
Lex, Page 18

Tehran plays host to Islamic summit



Workers adjust a banner in a Tehran marketplace welcoming delegates to the Organisation of the Islamic Conference summit. Iran's spiritual leader, Ayatollah Ali Khamenei, will tomorrow open the meeting, expected to have representatives from more than 50 countries. Entry points closed. Page 4

S Korean shipbuilding conglomerate collapses

By John Burton in Seoul

South Korea's 12th-largest conglomerate, the Halla shipbuilding group, collapsed at the weekend after its creditor banks curtailed loans and forced it to default on debt payments.

More highly leveraged conglomerates are expected to follow Halla after the government suspended the operations last week of nine of Korea's 30 investment banks, a vital source of short-term corporate financing. Coryo Securities last Friday became the first Korean brokerage house to go bust in 35 years after its investment bank subsidiary was included among those suspended.

The suspension has discouraged commercial banks from extending new loans to the investment banks. This is exacerbating a credit crunch as the indebted banks respond by refusing to roll over loans to highly geared industrial groups.

The government said it would try to rescue the investment banks through restructuring programmes and prevent more corporate bankruptcies. But this effort faces huge obstacles, given the perilous financial state

of most investment banks. The government is also resisting pressure from the International Monetary Fund to close at least two insolvent commercial banks soon because of fears that this would trigger a run on bank deposits and further restrict corporate lending.

Added pressure on liquidity is coming from domestic financial markets. Interest rates have soared to a 15-year high of 19.85 per cent.

Halla amassed debts of at least \$6bn as it completed the construction last year of a new shipyard which has yet to produce its first finished vessel. Halla also invested heavily in building overseas cement plants and expanding car-component facilities.

However, the outlook for other Korean shipbuilders is improving, since the weak Korean currency is likely to boost ship orders. "Halla expanded itself into bankruptcy," said Peter Bartholomew, managing director for Industrial Research and Consulting in Seoul.

Halla was established by the brother of the founder of Hyundai and has received financial support from Korea's leading conglomerate. But Hyundai said

it had no intention of taking over Halla's subsidiaries, including its shipbuilding and car-component operations that would complement Hyundai's own.

Some analysts believe that Hyundai may yet be forced to acquire Halla's Mando Machinery, Korea's largest car-parts maker, since its bankruptcy could threaten production for all of the nation's carmakers.

The credit crunch is forcing other conglomerates to reduce investments. The Dongbu group said it was postponing plans to produce semiconductors in a \$2bn venture with International Business Machines of the US.

Conglomerates are also diverting funds from investments as they prepare to defend against possible takeover attempts by foreign companies. The government is raising the foreign shareholding ceiling in listed companies to 50 per cent.

South Korea's debt to major international banks rose by 7.4 per cent to \$116.5bn by mid-1997 from the end of 1996, according to figures released yesterday by the Bank for International Settlements.

Painful prospect, Page 18

Big companies may face \$50bn Emu cost

By Wolfgang Münchau,
in London

European economic and monetary union will impose transition costs of more than \$50bn on Europe's largest companies, an average of around \$30m per company, according to a survey published today.

The data support anecdotal evidence from individual companies that the costs for Emu preparations far exceed their earlier predictions.

The survey, commissioned by KPMG Management Consulting, was conducted by Harris, the opinion research group, during September and October. About

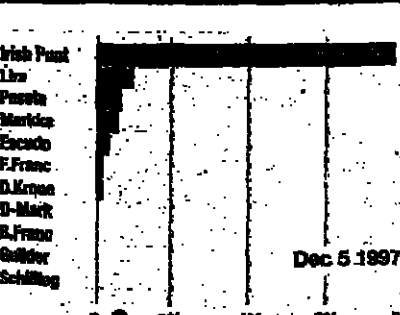
300 of Europe's largest companies took part. The estimate of preparation costs was based on an extrapolation of the survey data to European companies with more than 5,000 employees.

The estimate seems consistent with other industry forecasts which put the total cost of preparing for Emu worldwide at around \$150bn. Some experts say the final bill may turn out to be even higher.

The KPMG survey found that Europe's top companies expected average prices to fall and average wages to rise under Emu, as

Continued on Page 18

EMS: Grid



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 10 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

The Austrian, Dutch, Belgian and German currencies are now all within 0.02 per cent of their central rates in the exchange rate mechanism as the currencies expected to join European monetary union converge. Currencies, Page 27

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Ireland	£11.20	Belgium	₧12.5	Cyprus	₧12.5
Denmark	DKK12.5	Estonia	₧12.5	Poland	₧12.5
France	FF12.5	Finland	₧12.5	Portugal	₧200
Germany	DM12.5	Ireland	₧12.5	Sweden	₧12.5
Greece	₧200	Italy	Lit. 1,250	Switzerland	₧12.5
Spain	₧12.5	Latvia	₧12.5	Netherlands	₧12.5
Sweden	₧12.5	Lithuania	₧12.5	Poland	₧12.5
Switzerland	₧12.5	Malta	₧12.5	Czech Republic	₧12.5
Slovakia	₧12.5	Monaco	₧12.5	Slovenia	₧12.5
Malta	₧12.5	Norway	₧12.5	Slovenia	₧12.5
Cyprus	₧12.5	Slovenia	₧12.5	Spain	₧12.5

NEWS: INTERNATIONAL

European ministers to discuss consolation prizes for disappointed candidates for membership

EU may mollify rejected applicants

By Lionel Barber in Brussels

The European Union is moving toward a compromise aimed at avoiding a new Iron Curtain in central and eastern Europe between disappointed candidates and those on a fast-track for EU membership.

EU foreign ministers will today discuss a package to smooth the path to an agreement at this week's European summit in Luxembourg.

Separately, the EU wants to reassure Turkey that its application for membership

is being taken seriously.

The Luxembourg summit is expected to endorse the European Commission's judgment that the Czech Republic, Hungary, Poland, Estonia, Slovenia and Cyprus are ready to open negotiations on entry into the EU, most likely starting in late March.

However, the enlargement debate has shifted sharply toward compensating those left behind: Bulgaria, Latvia, Lithuania, Romania, and Slovakia. In particular, the Danes and Swedes have argued strongly against dividing the Baltic states

between Estonia, the front-runner, and Latvia and Lithuania.

A Danish proposal is gaining ground whereby all countries, with the possible exception of Slovakia, should be included in the first phase of accession negotiations. This is known as the "screening phase" when the Commission and the member states scrutinise how far candidates comply with the "acquis communautaire", the obligations of membership including compliance with the single market.

Commission officials claim

that the Danish proposal could slow down the enlargement negotiations by at least 12 months. "It is a transparent ploy to help the two Baltic states catch up with the front-runners," said a Commission official. "It is a de facto postponement of the negotiations."

Last week, Hans van den Broek, EU commissioner responsible for enlargement, raised the possibility of a "top-up fund" for the five outsiders in a bid to deflect charges that they had been short-changed on future financial aid.

A new study by the Royal

Institute for International Affairs in London on enlargement estimates that the five front-runners stand to receive more than Ecu900 (\$1,000) per head between 1999 and 2003. But the five back-runners are likely to receive under Ecu410 per head. "This funding gap seriously questions the EU's commitment to solidarity and convergence," it says.

Commission officials warn that if special measures are offered to the excluded central and eastern Europeans, it will be even more difficult to convince Turkey that it is being treated on an equal

footing. EU leaders appear to be ready to declare at the summit that Turkey is eligible for membership - an unprecedented step.

Provided Greece drops its veto, EU leaders will also invite Turkey to a pan-European conference next year alongside all 15 members, the 10 east European applicants, and Cyprus. But Turkey will not be included in the "accession partnerships" for the eastern applicants which will offer financial aid and a road map to membership.

Enlargement questions answered, Page 10

Hopes for opening up EU gas market

By Neil Buckley in Brussels

European Union energy ministers will renew attempts today to agree on plans to open part of the EU's \$100bn-a-year natural gas market to competition. An accord is potentially in sight.

EU states' officials and the European Commission suggest that, for the first time, since talks began in the late 1980s, a compromise is on the table which may prove acceptable to the main countries, notably France, Ger-

many and the UK.

The plan would lead to a minimum of about a quarter of the gas market in each EU state, accounted for by big industrial gas consumers and gas-fired electricity generators, being opened to competition initially. This would rise to a minimum of a third after 10 years.

France, whose energy minister, Christian Pirié, rejected a similar plan at the last ministers' meeting in October as too ambitious, could hold the key to agreement. France has sternly

opposed liberalisation, anxious to protect its gas monopoly. Gas de France, and arguing that gas is a strategic resource which should not be subjected to market forces.

But Luxembourg, keen to list a gas agreement among the achievements of its EU presidency, has warned it may push the issue to a vote if a consensus cannot be reached. That could see France and other opponents of liberalisation outvoted.

If an accord is not reached during Luxembourg's pres-

idency, the UK - the EU's biggest gas producer, whose domestic market will be fully open to competition by next year - has indicated it will push hard for a deal during its presidency.

Ministers will discuss a formula which would ensure that all gas users consuming more than a certain annual volume were free to shop around for supplies. It would require each EU state to open between 23 and 33 per cent of its total market, by volume, to competition initially - although states

could go further if they chose. After five years, the minimum and optional maximum bands would rise to 33-38 per cent, and after 10 years to 33-48 per cent. The minimum percentages are similar to those agreed in last year's directive on liberalising the electricity market.

Ministers must also agree on how to deal with long-term "take or pay" contracts, under which national gas monopolies contract to purchase gas from producers for as long as 20 years.

Paris proposes overtime rate cap

By Andrew Jack in Paris

French employees who work more than the government's proposed legal limit of 35 hours a week will be entitled to overtime rates of up to 25 per cent above the normal wage, two ministers indicated yesterday.

In a letter to 150,000 businesses for arrival today, Martine Aubry, the employment minister, and Dominique Strauss-Kahn, economic, finance and industry minister, said there would be an upper limit on overtime rates of 135 per cent for employees working between 35 and 39 hours a week.

Details of the cap - which is equivalent to the existing theoretical legal overtime rate for employees who work more than 39 hours a week - clarifies some cost implications of the government's working hours' plans, unveiled in October.

However, the two ministers stressed that legislation introducing a 35-hour week would include mechanisms designed to "prevent excess" in the use of overtime.

Their initiative came as the battle intensified over the government's controversial proposals to cut working hours, which has pitted it against many businesses.

The CNPF, the country's leading employers' federation, released a poll yesterday suggesting that employers and employees alike believed reduced working hours was the least likely measure to cut France's high level of unemployment.

The poll came ahead of a week of meetings planned by the federation to discuss the policy.

The federation will also elect a new president to replace Jean Gandois who resigned in protest at the working hours proposals.

Ernest-Antoine Seillière, his likely successor, recently called on companies to use the debate over the 35-hour week to "destabilise" Lionel Jospin, the prime minister.

The poll showed that 85 per cent of heads of companies opposed the 35-hour week, while 69 per cent of employees were in favour.

However, only 2 per cent of employers and 12 per cent of employees thought the measure would help create jobs.

Both groups argued that the most important initiative to boost employment would be to reduce France's high level of social security contributions.

Some 61 per cent of employers said the 35-hour week would harm employment, and 63 per cent said it would increase labour costs by more than 5 per cent.

Deadlines plan for Bosnia talks

By Guy Dinmore in Belgrade

Western governments, frustrated by the foot-dragging of Bosnia's reluctant peace partners, plan to impose deadlines for resolving serious disputes that have blocked reintegration of the war-shattered country.

Diplomats said foreign ministers would meet in Bonn tomorrow and Wednesday to hammer home the message that a US-driven policy of more robust intervention would prevail, although France and Russia oppose proposals to increase the powers of the international community's High Representative in Bosnia.

A draft resolution of the Peace Implementation Council, grouping the major western powers plus Russia and Japan, sets a December 15 deadline for agreement between Bosnia's Muslim, Croat and Serb leaders on a common citizenship law, passport and car registration.

By December 20 all three parties are to agree on a common national flag and currency and a customs pact. Other deadlines to be

met over the coming months include amendment of the Bosnian Serb privatisation law, the return of refugees and laws on property rights and foreign investment.

Although the civil war ended with the signing of the US-mediated Dayton peace accord two years ago, Bosnia remains effectively divided into three areas of control with little contact or co-operation between them. Only the presence of 34,000 Nato-led troops prevents renewed war.

Failure to agree on the design of a common currency has delayed the signing of a letter of intent that would pave the way for a \$100m stand-by credit from the International Monetary Fund.

Bosnians currently use three different currencies plus the D-Mark.

Similar disputes over the design of national symbols and a common passport mean that many Bosnians cannot travel abroad. Movement between the Muslim-Croat federation and the Bosnian Serb entity is limited because car licence plates identify the ethnic origins of their owners.



Yugoslavia's President Slobodan Milosevic and his wife Mira Markovic cast their votes yesterday as Serbs go to the polls for the third time in as many months to fill the vacancy left by Mr Milosevic last July.

With none of the seven candidates likely to secure an absolute majority, analysts predicted a run-off on December 21 between Milan Milutinovic of the ruling Socialists and Vojislav Seselj, leader of the extreme nationalist Radical party. In the last round two months ago Mr Seselj unexpectedly defeated the previous Socialist candidate but was narrowly denied victory when less than

50 per cent of the electorate voted.

With few independent observers monitoring the polls many Serbs suspect that Mr Milosevic, now president of federal Yugoslavia, will ensure one way or another that Mr Seselj fails again. If so Serbia's political vacuum will be filled by the speaker of parliament, a Socialist, while Mr Milosevic consolidates his new power base with no rival to challenge him. The US has branded Mr Seselj a fascist and diplomats suggest western governments will not protest too loudly if the Socialists do engineer his defeat in two weeks' time.

Guy Dinmore, Belgrade

Banks' early birds close window of risk

By George Graham, Banking Editor

The largest US banks today start opening in the middle of the night to make the flow of money around the world's payments systems safer.

Fedwire and Chaps, the two principal New York payment systems, which between them handle around \$2,500bn of cash transfers a day, were for the first time opening at 12.30am this morning.

This means Fedwire is now open 18 hours a day, overlapping with European large value payment systems and even giving a small overlap with Japan.

The overlap gives banks

the opportunity to synchronise their foreign exchange payments to one another, reducing the risk of being left hundreds of millions of dollars short if one of their trading partners goes bust.

Ernest Patrik, vice president at the Federal Reserve Bank of New York, said volumes in the early morning session would probably be small to start with but banks would find ways of using the facility.

Central bankers have been pressing for steps to eliminate foreign exchange settlement risk ever since the 1974 failure of Bankhaus Herstatt, a small German bank active in the foreign exchange market. Herstatt

collapsed after it had received D-Marks from its trading partners through the German payments system, but before New York had opened for it to pay over the corresponding dollars.

Longer opening hours for Fedwire, operated by the Federal Reserve, and Chaps, run by the New York Clearing House Association, will remove that time lag.

JoAnne Glazer, global clearing executive at Citibank, said that although the extended Fedwire day would not yet allow full synchronisation of payments, it would greatly reduce the window of risk.

"It's an extremely important initiative aimed at improv-

ing the safety and soundness of payments systems worldwide," she said.

The CLS Bank, a central clearing house bank which some of the world's largest banks are setting up with the aim of providing full synchronisation of foreign exchange settlements, will eventually be able to make use of the extended opening hours.

David Budinger, division risk manager at Citibank, said the 18-hour day would also give banks the opportunity to use Fedwire to make absolutely certain that payment had been delivered on a loan in Asia or Australia.

A few banks such as Citibank and Chase already man-

aged their payments desks around the clock, but they have until now been limited to internal processing in the early hours of the morning.

Although there has been no exact repeat of the Herstatt default two decades ago, the increase in the volume of foreign exchange trading to an estimated \$1,300bn a day has raised the stakes.

When Herstatt failed, the daily payment flow of foreign exchange transactions was roughly equal to the capital of a single large US bank. Today, daily foreign exchange settlements average three times the combined capital of the world's 100 largest banks.

Albright seeks new partnership in Africa

By Mark Suzman in Washington

Madeleine Albright, US secretary of state, today begins a week-long trip to Africa that the US hopes will launch a new, more dynamic relationship with a continent that is often marginalised in economic and strategic policymaking.

Mrs Albright's visit is seen as an indication of the growing importance of Africa for US foreign policy, particularly since the overthrow of Mobutu Sese Seko, former dictator of Congo.

Her visit follows recent trips by Hillary Clinton and Larry Summers, deputy treasury secretary, and is intended to help lay the groundwork for a visit by President Bill Clinton next year.

The focus of the trip will

be central Africa, where Mrs Albright will be visiting Ethiopia, Uganda, Rwanda and Congo, all now headed by leaders who have taken a more conciliatory attitude to US involvement in the region than their predecessors. She will also visit an oil rig in Angola as well as make brief stops in South Africa and Zimbabwe before going on to Brussels for next week's Nato meeting.

"The top priority is really advancing US interests in the Great Lakes region and trying to develop a personal relationship with the new generation of African leaders in those countries," a State Department official said. "We want to send a signal that we're moving away from old-style aid discussions with African leaders to a new kind of partnership."

Mrs Albright is planning

to emphasise the US's new willingness to look at trade and investment agreements as well as security issues. Congress has been working on a White House-backed trade initiative for African countries and last week the US government unveiled a dedicated sub-Saharan African investment fund backed by the Overseas Private Investment Corporation.

Following last week's meetings in Brussels by donor countries, the World Bank and other international organisations to discuss assistance for the new Congolese government, Mrs Albright is expected to offer US help in restructuring debt and aid packages to the region. In addition, she will explore the possibility of a regional conference to discuss the full range of social, economic and political diffi-



Albright aim to advance US interests in central Africa

culties facing central Africa. Mrs Albright will also encourage democratisation and emphasise human rights concerns, especially in Congo, where the government has only recently

agreed to a United Nations investigation into allegations of mass slaughter of Rwandan refugees by forces loyal to Laurent Kabila, the new president.

In Angola, she will reinforce these messages by pointing to successful foreign investment in the country's oil industry while trying to bolster that country's fraying peace agreement between the government and the Unita rebels.

The stops in South Africa and Zimbabwe will address some bilateral issues of concern, such as US opposition to President Nelson Mandela's recent trip to Libya. However, the main emphasis will be on making sure that the two countries, which both carry broader influence on the continent, share US policy objectives in central Africa.

NEWS DIGEST

Swiss Bank is accused over victims' assets

Swiss Bank Corporation was yesterday accused by the New York State Banking Department of providing inaccurate responses and withholding information from officials attempting to check whether it held assets belonging to Holocaust victims. The move is deeply damaging for the bank, coming on the eve of today's conference of public finance officials in New York, which will attempt to agree a common response on the issue, possibly including barring Swiss banks from new business.

According to an order signed by Elizabeth McCaul, New York's acting superintendent of banks, Swiss Bank "has not acted with appropriate speed and diligence in responding to request for information" on assets held in New York. She said that Ernst & Young, the auditors appointed by the state, had not been provided with certain relevant records and documents, and that Swiss Bank had "provided inaccurate responses to inquiries concerning wartime accounts".

Swiss Bank has now been ordered to submit a written report recommending improvements to its record-keeping practices, and reviewing the number of staff it devotes to handling inquiries about wartime accounts. Swiss Bank will be required to provide the banking department, which has the power to rescind its licence to do business in New York, with monthly updates on its progress.

John Authers, New York

GERMAN TAX

Deal on VAT rise close

Hopes rose yesterday for a deal between the Bonn government and the opposition Social Democrat party to prevent higher pension contributions pushing up Germany's non-wage labour costs next year. The two sides were said to be close to agreeing to raise the standard rate of value added tax to 16 per cent from 15 per cent to prevent a planned increase in pension contributions to 21 per cent of gross wages next year from 20.3 per cent.

Coalition leaders and senior SPD politicians also discussed stalled plans for reform of Germany's complex and inequitable income tax system in confidential talks. The chances of a tax breakthrough are less clear, although a "mini-reform" may be possible following a proposal from Oskar Lafontaine, SPD leader, for an across-the-board reduction of 4 percentage points in tax rates from 1998.

Peter Norman, Bonn

TURKISH POLITICS

Fresh doubts on inflation plan

The resignation of a senior Turkish technocrat has increased concern over the viability of the government's planned assault on inflation, which ministers expect to reach 100 per cent by the end of the year. Mahfi Eğilmez resigned as treasury undersecretary on Friday in protest against a proposal to freeze public sector prices for six months as part of an attempt to halve inflation by the end of 1998.

The Istanbul stock exchange's main index closed 2.78 per cent lower on Friday and bond yields climbed another three percentage points on rumours that Mr Eğilmez was about to resign. Mr Yilmaz now seems intent on moving ahead with a gradual, three-year reform programme to reduce inflation to 3 per cent by 2000. Mr Yilmaz has said his fragile coalition of left wing and conservative parties would not support radical reforms. Bankers say a gradual approach is unlikely to work.

John Barham, Ankara

VENEZUELAN ECONOMY

IMF discusses programme

Venezuela and the International Monetary Fund this week hold talks about an economic "shadow programme" following the government's earlier rejection of an IMF demand to raise petrol prices. In response to IMF demands for further anti-inflationary measures, the government will set aside an estimated \$1bn in proceeds from privatisation and oil tenders to service its foreign debt.

The government also announced bright economic results for 1997 with higher estimates for GDP growth at 6 per cent, up from earlier forecasts of 4 per cent. Luis Raúl Matos Azócar, Venezuela's finance minister, said the non-oil sector of the economy grew faster than expected, at 5.2 per cent instead of 3.1 per cent.

Raymond Collis, Caracas

POLISH POLITICS

New leader for ex-communists

Poland's main opposition party, the former communists, has voted to replace Józef Oleksy who led the movement to defeat in recent parliamentary elections. A congress of the Social Democracy of Poland (SDRP) meeting at the weekend selected Leszek Miller as the new party leader. Mr Miller served in the Communist Party leadership before it fell from power in 1989 and was interior minister in the last coalition government. Mr Oleksy became the leader of the SDRP two years ago after unproven accusations that he had maintained contact with a Russian spy forced him to resign as prime minister.

Christopher Bobinski, Warsaw

DUTCH STOCKS SCANDAL

Most suspects released

Dutch judges have released a batch of suspects arrested in a scandal surrounding dealings on the Amsterdam stock exchange. Of 15 held, only four last night remained in custody. Among those freed was André Baar, chairman of NBM-Amstelland, a large construction group. He has been accused of money laundering and making false declarations, but his lawyer said the investigation solely concerned Mr Baar's tax returns. Others released included Berry van den Brink, Dick de Groot and Roger Leroy, former securities executives. Three senior stockbrokers - Adria Strating, Han Vermeulen and Dick Visser - remain in prison, along with Fred Hendricks, a director of the Philips pension fund. They are accused of belonging to a criminal organisation, bribery, false declarations and tax fraud.

Gordon Cramb, Amsterdam

MEXICO'S CURRENCY

Floating rate system to stay

Mexico's floating exchange rate system, introduced under duress and regarded as a temporary expedient during the 1994-95 financial crisis, is likely to remain indefinitely, according to the Mexican finance minister. Guillermo Ortiz said the Asian currency turmoil had helped convince him of the advantages of flexible exchange rates.

Before the disastrous 1994 devaluation, Mexico used to establish each year a rate of maximum currency depreciation in an attempt to reduce inflation. Soon after the devaluation, the central bank had insufficient reserves to defend any level for the peso and was forced to float it. Mr Ortiz said he had changed his mind because the regime had proved more stable than expected and because only two kinds of currency regimes were viable. These were a monetary board arrangement, which fixes a currency against another, leaving monetary policy to be determined by flows of funds in and out of the economy, or the free floating regime.

Stephen Fidler, Mexico City

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Doubts over liberalising financial services

By Guy de Jonquieres
and Frances Williams

The final countdown begins today in World Trade Organisation negotiations on liberalising financial services markets, amid uncertainty about whether an agreement can be clinched by Friday's deadline.

The nine-month-long talks have an ambitious goal: to tackle long-standing barriers - above all in developing countries - to international competition in banking, insurance and securities, and subject national policies to binding multilateral rules and disciplines. The stakes have been raised still higher by economic and financial turmoil in Asia. The US, the European Union and the WTO itself say a successful outcome this week would bolster stability

and investor confidence in countries in the region.

Failure, on the other hand, would risk further unsettling global financial markets. As well as indicating faltering international resolve in the face of the Asian crisis, it could fuel doubts about the commitment of the US and Europe to keeping their financial markets open.

The attitude of the US will be decisive. It rejected a WTO financial services deal two years ago, saying developing countries had not done enough to liberalise markets. The talks avoided collapse only after the EU rallied other WTO members behind a stop-gap agreement.

Washington is still setting tough demands but has adopted a more amiable tone. It is now ready to accept pledges for action

phased over several years.

So far, the US, the EU, Japan and 42 other WTO members have tabled offers which pledge liberalisation beyond their commitments two years ago. However, Washington is still not satisfied. "At this stage, it is premature to judge whether we are going to have the basis for a successful agreement," a senior US Treasury official said.

The US complains that many countries are balking at guaranteeing in the WTO the competitive freedom they already grant foreign institutions. Korea's offer, for instance, falls far short of the liberalisation it has agreed to in exchange for International Monetary Fund assistance.

Some countries are pledging genuinely new liberalisation, but on a piecemeal basis. Egypt's

offer, for example, is judged good in securities, but poorer in insurance. Malaysia, meanwhile, is offering to raise to 51 per cent its ceiling on foreign ownership of insurance companies.

But that is not enough to satisfy American International Group, a US insurance company with a wholly owned Malaysian business. AIG wields so much clout in Washington that some observers fear its objections could scupper a WTO agreement.

Several other countries which the US considers important to any deal - notably Brazil, India, Indonesia and Thailand - have yet to make offers. Because such submissions can be complex, there are fears further delays could prevent the talks being concluded by Friday. The EU is caught in the middle of these

cross-currents. Although its negotiators are urging other countries to improve their offers, some say privately it would be better to settle for what is on the table than risk a breakdown of the talks.

They argue that countries accounting for more than 90 per cent of international trade in financial services have already made offers, and that an agreement would underpin global financial stability by committing WTO members to respect non-discriminatory trade principles.

Such arguments count particularly heavily with the UK. It is worried that collapse of the talks could undermine the EU's willingness to keep its market open, threatening international access to the City of London. But France and some other EU members are much less concerned.

Partly because of such differences, officials insist the EU cannot be counted on to ride to the rescue of the talks again, if they are jeopardised by a last-minute US refusal to participate in a deal.

In the end, much will depend on how Washington weighs the balance between avoiding a failure which would jolt international market confidence, and the need to satisfy domestic lobby groups and Congress that it is stoutly defending US interests.

Some observers expect a compromise. There is talk of simply extending the 1995 financial services agreement, or settling for an improved interim deal, until the WTO launches fresh services talks in 1999. Which, if any, of these options is chosen may become clear only hours before Friday's deadline.

Beijing in move to boost its WTO bid

By Frances Williams
in Geneva

China has offered to ease foreign access to its banking, insurance and distribution sectors during talks in Geneva, on its 11-year-old application to join the World Trade Organisation.

Trade diplomats said that, though the offer was still inadequate, it provided a basis for further negotiations. Bilateral discussions between China and its main trading partners on both goods and services were described as having made "good progress" last week, raising hopes that the talks can be accelerated in the first half of next year.

Long Yungtu, China's chief WTO negotiator, called on WTO members not to prolong the negotiations. "The earlier China accedes to the WTO, the earlier China will implement its commitment to WTO rules," he told the working party considering Chinese membership.

He said he hoped China would be a WTO member by the turn of the century, when a fresh round of global talks on services and agriculture is due to start.

Several more countries are said to be close to a deal with Beijing on trade in goods, in addition to the seven that have already finished bilateral talks. The seven include Japan, China's largest trading partner.

China also confirmed last week that it would adopt a different tack on tariffs, based on a general formula rather than item-by-item bargaining. The formula, first proposed by the EU and supported by Washington, would cut average industrial tariffs and set a maximum for peak tariffs, which the EU says should be no more than 15-20 per cent.

China has already offered to cut the average tariff on industrial products to 10 per cent by 2005 but has yet to translate this into a line-by-line offer. The current tariff on industrial and farm goods averages 17 per cent.

WTO's film ruling angers Washington

By Nancy Dunne,
Guy de Jonquieres
and Michio Nakamoto

The rejection by a World Trade Organisation dispute panel of a US complaint that Japan has rigged its photo-film market against imports has set off tremors which go far beyond the commercial impact on Kodak and Fuji, the two companies directly involved in the case.

Although Friday's preliminary ruling may be amended or even reversed, it has created a political outcry in Washington. Both Republicans and Democrats in Congress have rushed to call for the US to revert to tough actions to pressure Japan into opening its market. In Japan, the WTO decision has disheartened reformers. They fear it will be taken as an exoneration of the country's burdensome regulatory practices, dashing hopes of accelerating faltering efforts to restructure the economy and stimulate demand.

Even before the WTO ruling was known, Newt Gingrich, Republican speaker of the US House of Representatives, and Richard Gephardt,

leader of the House Democrats, took the unusual step of joining forces to underline the importance of the Kodak-Fuji case.

Calling it "an important test of the ability of the WTO to address systematic Japanese protection", they urged President Bill Clinton to insist on "meaningful remedies that will eradicate barriers in the Japanese distribution system".

Editorial comment, Page 17

Similar demands, and angry condemnations of the WTO dispute process, have poured in since the ruling was made known.

"In spite of overwhelming evidence to the contrary, the WTO has put a stamp of approval on Japanese market impediments to free and fair competition," said Senator Wayne Allard, a Republican. "The time has come for the Clinton administration to develop a cohesive policy for dealing with closed Japanese markets."

Mr Clinton is already on the defensive over trade policy. As well as failing to win fast-track trade negotiating

authority from Congress last month, he faces growing anger at home over the resurgence of the US bilateral trade deficit with Japan and many other Asian economies.

At the same time, he and his advisers are acutely anxious to avoid any precipitate trade measures which could further destabilise financial markets in Japan and the rest of Asia, and impede economic recovery in the region.

"This couldn't come at a worse time," said Clyde Prestowitz, head of the Economic Strategy Institute, a Washington think-tank, and a critic of Japan's trade practices.

Alan Wolff, Kodak's chief lawyer and an influential voice in Washington trade policy circles, said the US needed to tackle specific market barriers in Japan and then broaden its approach to cover all sectors.

"There's a real question whether anything short of sanctions will bring forth the desired result," he said.

"There will be a lot of concern that the solution for countries in financial diffi-



Kodak films, in yellow, being sold alongside Fuji films at a Tokyo camera shop last week.

culty will be to export while keeping their own markets closed."

At the same time, there have been calls in Congress for a reform of WTO rules to cover competition policy. However, Mr Clinton would need fast-track authority to be able to negotiate such changes.

In Japan, some reformers argue that a WTO ruling against the country would have been positive. "It would be a trigger for deregulation," said Susumu Saito, director of the Trilateral Institute, a private think-tank.

Japanese government officials insist, nonetheless, that

deregulation is being pursued regardless of outside pressure. The government says it is studying abolition of the retail store law which restricts retailers' ability to operate large outlets. The law is one of the issues Kodak cited in claiming that the Japanese market is closed.

But the Japanese government has a long history of instituting change faster when pressed by trading partners. Criticism of the retail store law has been voiced for decades, by Japanese retailers as well as foreign companies.

Yet small retailers could still play a big role in resist-

ing change. Their interests are protected by the Ministry of International Trade and Industry, which has a strong influence in decisions on the future of the law.

Japanese reformers will also be disappointed that the WTO verdict does nothing to encourage the government to strengthen the powers of the Japan Fair Trade Commission.

The JFTC has long been hampered by its lack of independence from the Japanese bureaucracy. Neither are its actions exactly transparent by western standards. Kodak has taken a complaint to the JFTC but has heard nothing for 16 months.

Deprived of a legal or even moral victory in its case against Fuji, Eastman Kodak's recent difficulties in both the Japanese and US film markets have been thrown into stark relief, writes Richard Waters in New York.

If Wall Street's muted reaction to Friday's news was any guide, however, the company's future has always depended far more on its own ability to reverse the slide in its fortunes than on the notional benefits that would have come from a favourable ruling by the WTO.

For the US company, gaining a stronger foothold in Japan will remain an important element in the worldwide battle against Fuji. Its share of film sales in Japan has remained stuck at 10 per cent - a fact that Kodak blames on the unwillingness of wholesalers and retailers to stock its products.

Shielded at home from more competition, Kodak claims, Fuji can reap higher profits in Japan and use these to support its attack on Kodak in the US and elsewhere. Fuji's earnings in Japan last year topped \$650m, compared to the \$75m earned overseas.

But Fuji's rapid expansion in the US has exposed two flaws at Kodak: a high cost base, and the failure of its attempts to develop a new business, based on digital technologies.

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NEWS: INTERNATIONAL

Thailand to shut non-bank institutions

By Ted Bardacke
in Bangkok

Thailand will today close down most of its non-bank financial institutions just hours before an International Monetary Fund deadline, senior Thai officials said at the weekend.

"It should not be any surprise that all or nearly all of these companies will go under," said Pichet Leetan, the deputy finance minister. "People have been using this issue as a benchmark to see if the government is committed to a restructuring of the financial system."

Immediately at issue are 58 finance companies, specialising in consumer, property and stock market lending, which were suspended months ago.

These companies have submitted rehabilitation plans to the government but few are seen meeting the huge recapitalisation requirements called for by Thai authorities.

The IMF board is scheduled to meet later today to decide whether to approve Thailand's second tranche of funds from its \$17.2bn international rescue package. Michel Camdessus, IMF managing director, has said the funds will be disbursed if Thai authorities follow through on their pledge to liquidate bankrupt financial institutions.

"I expect few if any of these companies to survive. They are simply insolvent," Mr Camdessus said recently in Bangkok.

NEWS DIGEST

Shanghai banks' offshore role

China announced over the weekend it would soon allow banks in Shanghai to start offshore banking business, a further step towards developing Shanghai into one of the world's financial centres. Banks in Pudong, the development zone in Shanghai earmarked to become China's Wall Street, will be selected to carry out offshore banking business on an experimental basis, according to a report in the Shanghai Securities News, the official newspaper. Banks will be allowed to offer offshore financial services for funds of non-residents of China, including overseas registered banks, companies and individuals.

The offshore banking business was not aimed at serving foreign companies registered in China, the newspaper said.

James Harding, Shanghai

ISRAELI STRIKE

Unions set to end action

Histadrut, Israel's trade union federation, said yesterday it was poised to sign an accord with Israel's finance ministry to end a nationwide strike by 700,000 public sector workers that has paralysed the economy since last Wednesday. Striking workers have shut down government offices, the stock exchange, banks and the airport, in a dispute with the government over pension rights, privatisation and economic reforms. The stoppage cost the Israeli economy \$32m a day, according to Israel's Manufacturers Association. Amir Harezi, Histadrut chairman, said the strike was justified and would be understood by the public.

Amir Machlis, Jerusalem

MOSSAD

Charges embarrass agency

The weekend disclosure of an embarrassing spy scandal has shaken Israel's Mossad intelligence agency to the core. The fiasco, in which Yehuda Gil, a former agent, was charged with disseminating disinformation over many years which endangered state security, comes two months after Mossad's reputation was severely hit when it bungled an assassination attempt in Jordan on an official of Hamas, the Islamic Resistance Movement. At the weekend, a Tel Aviv district court permitted newspaper publication of excerpts from the indictment against Mr Gil, who has been charged by the state attorney with fabricating information that "had decisive influence over state security".

Amir Machlis

ISLAMIC CONFERENCE

Iran closes entry points

The Iranian government has declared a national holiday for the duration of the summit of the Organisation of the Islamic Conference (OIC), which runs for three days from tomorrow. All motorways into Tehran will be closed, as will airports serving international carriers. Iran's spiritual leader, Ayatollah Ali Khamenei, and not President Mohammad Khatami, is to open the summit, underlining the hold he retains on foreign policy. Egypt, Jordan, Morocco, Oman and the UAE will not be represented by heads of state.

The UAE has protested to the UN about Iran's naming of two naval vessels after islands in the Gulf occupied by Iran but claimed by the UAE.

Robin Allen, Dubai

PHILIPPINE KIDNAPPINGS

Police chief resigns

The chief of the Philippine police force has resigned amid public anger at a wave of kidnappings. Recaredo Sarmiento, director general of the Philippine National Police, resigned on Friday, after two high-profile kidnappings of Chinese-Philippine businessmen last week. In one case, police themselves killed the kidnaper victim - the son-in-law of John Gokongwei, one of the country's wealthiest businessmen - in a gun battle with escaping kidnappers. A citizens' monitoring group said there had been 304 kidnappings in the first 11 months of the year.

Full-out from the Asian crisis pushed Philippine inflation up from 5.7 per cent year-on-year in October to 6.5 per cent in November.

Justin Marozzi, Manila

Anwar left to bring the bad tidings

It is rare for Mahathir to be more than a hair's breadth from events. James Kynge reports

Mahathir Mohamad, the Malaysian prime minister, was on a faraway island last week launching a space programme which may yield results in the next century.

On the same day, in Kuala Lumpur, his deputy, Anwar Ibrahim, was launching an economic programme that he hopes will yield results rather sooner.

It is rare for Dr Mahathir to be more than a hair's breadth from the seminal events shaping his nation.

But when Mr Anwar, who is also finance minister, unveiled the government's most significant policy shift since south-east Asia's financial crisis began in July, Dr Mahathir was miles away.

Inevitably, Dr Mahathir's absence provoked questions over the likely success of the new austerity measures, and over whether his influence is



Anwar Ibrahim, Malaysia's deputy PM, launched austerity measures

finally fading after 16 years at the helm.

The prime minister's first remarks on the package yesterday were terse. Still on

the island of Langkawi off the north-west coast, he said only that the measures announced were necessary to restore confidence in financial markets.

Observers said that while Mr Anwar's prominence in announcing the initiative was a sign that his influence is growing, it would be premature to assume that Dr Mahathir is about to be unseated by his younger rival. It may well be that the prime minister is content to allow Mr Anwar to appear to be the author of a policy which, although crucial to the country's economic health, will result in acute pain for many next year.

"It is a typically clever move by a fox politician to distance himself," said Fan Yew Teng, a writer and former member of parliament.

"If the package works, he can say that he has been a part of it. If it doesn't, he can

come back and knock Anwar."

The stakes could hardly be higher. Officials said that one main aim of the package is to prevent the country from being forced to seek assistance from the International Monetary Fund (IMF), which Kuala Lumpur fears would result in a loss of economic sovereignty.

Mr Anwar's gamble is that medicine prescribed at home can preclude more bitter remedies administered later by outsiders.

The stock market's decline by more than 50 per cent from its peak this year and the ringgit's precipitous decline mean that Malaysia had no choice but to take radical steps.

The main thrust of the package, which envisages an 18 per cent cut in federal government expenditure in 1998, with an immediate reduction of 10 per cent, was

aimed at maintaining budget surpluses.

Growth is now forecast to drop to 4.5 per cent in 1998 from an earlier prediction of 7 per cent, Mr Anwar said. So-called "megaprojects", such as a multi-billion dollar road and rail link from Malaysia to Thailand which Dr Mahathir was promoting as recently as last week, have been postponed indefinitely.

Mr Anwar dismissed such schemes, which form the cornerstone of Dr Mahathir's economic vision, as "not very productive". He added that they were responsible for "dragging down" the country's banks.

But perhaps the deputy prime minister's boldest stroke was to rule that there would be no bail-outs of companies or banks.

Since 1971, Malaysia's economy has been condi-

tioned by preferential policies for *bumiputras* (mainly ethnic Malays) and several *bumiputra* entrepreneurs have been plucked from obscurity by Dr Mahathir to run large companies.

Bankruptcies among these entrepreneurs would be most unpopular within the United Malays National Organisation (UMNO), which elects the country's top leaders.

It will be tough to carry through measures which could affect the power bases of both Dr Mahathir and Mr Anwar in UMNO.

But if financial markets get wind that the austerity package is being diluted, they may react negatively, economists said.

The catch is that investors may also take fright when they see how much pain the austerity package inflicts, at least until the first signs of recovery become clear.

EU says US must match its softer stance on greenhouse gas emissions at talks on global warming

UN summit looks to Gore for concessions

By Lays Boulton,
Environment Correspondent,
in Kyoto

Al Gore, the US vice-president, is today expected to deliver a concession needed to secure a deal to fight the impact of global warming.

The European Union said last night it was up to Mr Gore, who arrives in Kyoto this morning, to match a softer US stance announced yesterday.

"If Al Gore had nothing to offer he would not be coming to Kyoto," said Johnny Lahure, environment minister for Luxembourg, which currently holds the rotating EU presidency.

Ministers today take over the Kyoto talks from officials to achieve by Wednesday, when the conference ends, a deal curbing industrialised countries' green-

house gas emissions by 2010. Mr Gore is under pressure to offer a more substantial US reduction target and be more flexible in seeking commitments from developing countries.

The EU for its part yesterday abandoned its insistence that all countries agree a flat-rate cut which individual EU members could collectively achieve through differentiated targets.

Ritt Bjerregaard, EU environment commissioner, said the 15-nation bloc would insist that only Japan and the US, along with the EU, be held to a common target.

But John Prescott, UK deputy prime minister, who is likely to play a pivotal role in the talks' end-game, suggested even Japan and the US could have a different target if this amounted to a comparable burden to the EU.

Mr Prescott agreed with Ms Bjerregaard however that the US had to do more than offer to stabilise emissions at 1990 levels. Japan's proposal for a 2.5 per cent cut in emissions also needed improving.

Mr Prescott said European public opinion would not understand why nations which did "rather better" than the EU economically should get off more lightly in cutting emissions. The most important greenhouse gas is carbon dioxide, emitted from the burning of fossil fuels. The US, already 11 per cent above 1990 levels of carbon dioxide emissions, argues its proposed "stabilisation" target for emissions is comparable to a 15 per cent cut for the EU.

Mr Prescott said a more ambitious US target was also essential for convincing developing countries to play what Washington insists



Greenpeace members protest in Kyoto during UN global warming talks yesterday

should be a "meaningful" role in fighting climate change.

Developing countries on Friday rejected a proposal by New Zealand that they agree a deadline for capping their emissions once the industrialised world started cutting

them. But Mr Prescott warned developing nations unless they compromised, nothing would be done by the US to tackle a problem which threatened them too. The US Senate has said it will not ratify any deal that does not offer matching com-

mitments by developing countries. The White House however says it is simply seeking a formula that will commit developing countries to more climate-friendly growth with the help of know-how from the industrialised world.

India tries to calm effects of roller-coaster political ride

Delhi aims to keep a steady hand on economy ahead of poll

India's latest political turmoil has delivered an unwelcome dose of uncertainty to an already lurching economy. The question is whether disruption caused by the world's biggest election process will deliver more serious economic damage.

With elections now due in late February or early March, India faces a legislative hiatus of at least five months.

The caretaker government of I.K. Gujral insists it will keep a steady hand on the economic rudder over the next few weeks. The finance minister, P. Chidambaram, said at the weekend: "Whatever decisions have been approved by the cabinet will be implemented."

The view of business leaders was that the poll would deliver another blow to confidence but might at least clear India's muggy political air.

The chief consequence of the hiatus will be an indefinite delay to passage of a series of important bills which the United Front (UF) coalition government had lined up for the now abandoned session of parliament.

These include a companies bill, an income tax act, reformulated foreign exchange regulations and laws for dealing with "sick" companies, along with separate legislation to create new regula-

tory authorities for the power sector.

Also on hold is legislation ending India's insurance regulatory authority with statutory powers, a law necessary to begin limited liberalisation of the state monopoly insurance industry, a new civil aviation policy, and formulation of a new broadcast bill, which has significant implications for foreign ownership of television and satellite broadcasting channels in India.

The better news is the caretaker UF's commitment to push through a series of

through aggressive tax cuts and a series of inflationary credit policies, growth this year looks likely to reach at best 5.5 per cent, rather than the 7 per cent forecast by the government earlier this year.

Delays to an economic upturn will only further weaken India's increasingly fragile fiscal position.

This year's target fiscal deficit of 4.5 per cent of gross domestic product against 5.2 per cent last year - looks unobtainable.

Lower than expected growth has led to much

The country's economic growth and government revenues appear to be falling short of targets

measures approved earlier by cabinet and requiring only administrative clearance. Mr Chidambaram said these would include pressing ahead with strategic sales of stock in at least four more state companies, issue of sovereign guarantees for four long-delayed power projects, and moves to reconstitute the boards of India's biggest public sector companies.

Nevertheless, India's election comes at an economically delicate moment. Despite repeated efforts by the UF to stimulate growth,

lower than budgeted tax and excise revenues. Disinvestment revenues, budgeted at Rs70bn (\$1.8bn), are also likely to undershoot.

Of four planned international equity issues of state-owned companies, only that of MTNL, the telephone company, has been completed.

Sale of stock in GAIL, the state gas company, earlier fell victim to Asia's tumbling markets and was postponed. Mr Chidambaram said his government would try to bring the GAIL issue to market as soon as possible, and press ahead with

two more international offerings.

He claimed tax receipts were "looking much better". But most neutral observers see a large revenue shortfall.

India's fiscal vulnerability is unlikely to subject it to the kind of crisis witnessed in south-east Asia.

India's economy remains more domestically oriented than those of its eastern neighbours. Its currency is not yet fully convertible on capital account, its reserves are healthy and its trade deficit still manageable.

The only backlash so far has been in Asian fund redemptions contributing to a net \$14m outflow of portfolio investment funds by foreign institutional investors last month - the first monthly outflow since India opened its capital markets in 1992.

"Markets are so nervous, and so you must retain stable macroeconomic policy," says a western economist. "Any chinks in that are going to be found out by the markets and punished."

Mr Chidambaram appears to have got the message. "It has been a roller-coaster year," he said. "One government fell a month after the budget and another fell six months later. Therefore the sums may be wrong, but we will try our best."

Mark Nicholson

Land defeat puts pressure on Howard

By Jenny McAsey in Sydney

The rejection by Australia's parliament of native title legislation has intensified pressure on the government over race issues and increased the likelihood of an early election.

In a rare Saturday sitting of the House of Representatives, the government refused to accept amendments made by the Senate to its Wik legislation, which aims to curb Aboriginal rights to claim native title over land.

John Howard, the prime minister, has strongly supported the proposed legislation and maintained that his ruling Liberal/National party coalition would take steps towards dissolving both houses of parliament if the Senate tried to water down the bill.

The government will resubmit the original legislation to the Senate in March and, as widely predicted, it is rejected a second time, it will provide the trigger for an early election.

The government is not due to go to the polls until March 1999.

If the coalition won the election following a double dissolution, it could hold a joint sitting of parliament which would provide the numbers to pass the contentious legislation.

But opinion polls published at the weekend showed the government trailing the Labor opposition by about 15 points - 52 to 37 - and most pundits predict Mr Howard would wait until at least July before going to the voters.

Mr Howard, under growing pressure from rural and mining interests to sort out the uncertainty over native title following last year's Wik High Court decision, has signalled his determination to maintain a strong stand over the legislation and fight criticism that he is a weak leader. However, the prospect of a government-backed election over the Wik issue has raised concerns about an election campaign

in which race would be the central issue.

The Wik legislation and the associated debate over native title have deeply divided the nation.

In particular, it has caused a split between city dwellers, more inclined to redress past injustices towards Aboriginal people, and farmers who fear leases over pastoral land may be under threat from title claims.

The division comes on top of the unrest caused by an independent member of Parliament, Pauline Hanson, who has offended Australia's Asian neighbours with calls to limit Asian immigration.

Likelihood increased of early elections

The Labor opposition leader, Kim Beazley, yesterday warned Mr Howard was taking a dangerous step towards an election campaign with a "racial tinge". He said Australia's international reputation would be at risk if the country went to the polls divided over Aboriginal rights.

However, Mr Howard has insisted there will be no race-focused election in his lifetime.

Voters have made it clear that the economy and high unemployment are still their greatest worries and the government would not hold an election before bringing in its budget next May.

Tax would also be a big election issue, with the government currently devising a comprehensive reform package, which will include some form of goods and services tax.

Hundreds of bush fires which devastated a large part of New South Wales last week are no longer posing a threat after a weather change brought heavy rain-fall. More than 150 fires burnt over more than 400,000 hectares of bush land across the state. Two firefighters lost their lives in the fires.

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James Kyng reports

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As on global warming



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NEWS: UK

Farmers gather to plan the next stage of their battle to win subsidies

More protests against Irish beef

By George Parker and Alison Maitland in London and Juliette Jowit in Holyhead

Farmers leaders from across Britain will meet in London today to plan the next stage of their campaign to win extra subsidies for cattle farmers, amid renewed demonstrations at ports against cheap imports of Irish beef.

Yesterday there were pickets by farmers at ports including Stranraer in Scotland and Holyhead in Wales, but they were smaller than had been expected.

However, police arrested five farmers attempting to use tractors and cattle trailers to blockade Dover, to stop imports of beef from the Continent.

Some senior National Farmers Union officials are calling for a period of peace at the ports, to allow the government to assess their claims for extra subsidies in a less confrontational atmosphere.

Last week the ministry of agriculture made it clear it could not be seen to be giving in to farmers adopting the same kind of "direct action" used by their French counterparts.

Jack Cunningham, agriculture minister, is considering help for cattle farmers worst hit by the strong pound and a lack of consumer confidence heightened by last



Farmers use vehicles to blockade the port of Dover, on the south coast of England, and (inset) pickets at Holyhead, Wales

week's warnings that BSE might be transmitted through beef bones.

However the Treasury is refusing to sanction any increase in the ministry of agriculture budget, which is already tightly stretched.

The government may find it difficult politically to find more money for cattle farmers when it is pushing through legislation to cut benefits to lone parents.

Farmers leaders have

ruled out a mass rally in London for fear of causing disruption to the public.

In Wales farmers and families will be picketing supermarkets, urging store managers to take imported meat off the shelves and the public to buy British products.

National and regional newspapers will be used for a nationwide advertising campaign to explain farmers' grievances, and their claim to European subsidies which

the UK has not taken up. These could amount to almost £1bn, but the British taxpayer would have to meet 71 per cent of the cost.

Yesterday's port demonstrations were expected to be the largest yet, to coincide with the busiest day for beef shipments from Ireland, but there were few major incidents.

Yesterday afternoon only a small delegation of farmers was at Stranraer on the west

coast of Scotland to check Irish trucks' cargoes under police escort, although hundreds more were planning to picket the port and Cairnryan overnight.

Jim Walker of the National Farmers Union of Scotland and organiser of the protest, said: "After this, we'll step back and give the government time for reflection so they see sense and the depth of feeling throughout the UK."

'United Ireland' call may put talks in danger

By George Parker in London

Tensions in the Northern Ireland political talks are expected to mount this week, when leaders of Sinn Féin, political wing of the Irish Republican Army, tell Tony Blair that the peace process must ultimately lead to a united Ireland.

In a face-to-face meeting with the prime minister, Gerry Adams and Martin McGuinness, Sinn Féin's most prominent figures, will also press Mr Blair in Downing Street to apologise for the British army's "bloody Sunday" shootings of civilians in Londonderry in 1972.

Yesterday Mr McGuinness travelled to South Armagh, the so-called "bandit country" previously associated with intense IRA activity, to assure a mass meeting that he had not given up hope of a united Ireland.

"They [the Government] have to face up to the fact that the purpose and object of this exercise is to unite the people of Ireland and eventually unite the island of Ireland," he said. "That is where we must be going in these talks."

"The reason why I was late today was because a man and a woman in South Armagh insisted on me having a very hearty meal," he told around 1,000 people in Crossmaglen.

"That may surprise some people. According to some journalists, people like me may not be too welcome in South Armagh. It just shows you how wrong they are."

Mr Blair's meeting with the Sinn Féin leadership has infuriated unionists. Yesterday David Trimble, Ulster Unionist leader, claimed that the IRA would soon be resuming its terrorist campaign. The Ulster Unionists are the largest pro-British party in Northern Ireland.

"The prime minister will know even before he sees these people, he will know from his own security assessment... that the probability is that Sinn Féin will revert to violence in the New Year," he told BBC television's *On The Record* programme.

Mr Trimble claimed that Mo Mowlam, Northern Ireland secretary, was too keen to accommodate Sinn Féin's demands. He said he believed that she wanted to drive his party out of the talks.

UK NEWS DIGEST

US company in Scottish project

Cadence Design Systems, a US company which produces software used in the design of electronic products, is poised to announce the setting up of a software tool design facility in Scotland. The project could involve academic institutions and electronics manufacturers in Scotland and lead to the creation of 1,800 jobs over the next five years, it is believed.

Details of the project are being kept secret until they are announced on Wednesday by Scottish Office ministers in London and Glasgow. Cadence Design Systems, based in California's silicon valley, has a network of research laboratories with a headquarters in Rome. The company had turnover of \$629.2m in the first nine months of 1997 and net revenue of \$68.9m. It employs more than 8,000 people around the world. James Buxton, Edinburgh

BRITISH AIRWAYS

Crackdown on drunken passengers

British Airways yesterday announced a crackdown on drunken passengers. Anyone who appears to be drunk may be prevented from boarding aircraft, and cabin crew will stop serving alcohol to travellers who they believe are on the verge of drunkenness, the airline said. Duty Free Liquor might also be removed from any inebriated passengers.

The move follows a rise in the number of drunken and disruptive passengers. It also follows two recent court cases in which inebriated travellers who assaulted staff received jail sentences of up to two years.

David Hyde, the BA director responsible for safety and security, said: "In common with most other air carriers we are experiencing an increase in the frequency and severity of disruptive and drunken behaviour."

CREDIT CARD FRAUD

Banks launch checking system

British banks will today strike another blow against credit card fraud with the launch of an expanded electronic "hot card file" which retailers can use to check if a customer is trying to pay with a stolen card.

Card Clear, which already distributes a hot card file to 8,500 retailers, has been awarded two contracts which will give it sole responsibility for collecting and distributing information on lost and stolen credit, debit and cheque guarantee cards.

Card Clear, which merged last year with Cardcast, its principal UK rival, already collects stolen card information from more than 20 banks, including Barclaycard, the UK's biggest card issuer. George Graham, London

TRADE UNIONS

Alarm over workplace rights

Trade union leaders are growing increasingly alarmed that Tony Blair, the prime minister, intends to dilute his commitment to provide trade unions with workplace recognition rights.

The Confederation of British Industry, principal employers' organisation, believes it has won an assurance from 10 Downing Street that companies need not recognise unions unless they can secure the full consent of 90 per cent plus one of those employed in the proposed bargaining unit. A spokesman from the Department of Trade and Industry said yesterday the matter was "under consideration" and it would be dealt with in the government's white paper early next year. Union leaders argue the law should require only a majority of those who vote in the ballot for recognition to agree to require the employer to comply. Robert Taylor, London

BRITISH MUSEUM

Trustees decide against charges

The British Museum has decided not to introduce an entry charge for its 6.7m annual visitors. The trustees, who are faced with a projected financial shortfall of more than £3m, have decided on a range of money making and cost saving measures. These include charging more for services and for special exhibitions, seeking ways of reclaiming a higher proportion of value added tax, attracting higher donations from visitors, and spending less on acquisitions. The British Museum's decision was welcomed by the directors of the other non-charging museums, such as the National Gallery, the Tate and the National Portrait Gallery. Antony Thorncraft, London

CONSUMER SPENDING

Institute forecasts sharp fall

The Chartered Institute of Marketing, the professional body for marketing and sales, is forecasting a sharp fall in consumer spending next year as consumer confidence declines. In its quarterly market report, the institute is forecasting a "growth recession", which shows short of the severe economic downturn of the early 1980s and 1990s. Douglas McWilliams, economic adviser of the CIM, said: "This time the economy will gently go off the boil and instead for those companies facing skill shortages or input cost pressures, the growth slowdown may make life easier." Wolfgang Münchau, London

HARRODS BANK

Separate business from store

Harrods Bank has asked us to point out that it has no connection with the safety deposit boxes at Harrods, mentioned in Friday's report about writs filed by Tiny Rowland. The boxes are controlled by the store. The bank operates as an entirely separate business in whose running the store has no say.

Revolt by MPs clouds 'exclusion unit' launch

By George Parker, Political Correspondent

Tony Blair, the prime minister, will today launch the government's much-awaited "social exclusion unit", against a backdrop of growing discontent among Labour MPs at plans to cut benefits to lone parents.

Mr Blair will argue that the 12-strong unit, including civil servants and business people, will focus government policy on helping the most disadvantaged members of society.

The initiative will be backed by the provision of £200m (£334m) of National Lottery funds to create a network of after-school homework clubs.

However, the launch will be soured by the prospect of a revolt by Labour MPs on Wednesday, when the House of Commons debates the government's plan to scrap lone parent benefits for new

claimants, amounting to a cut of up to £11 a week.

John Marek, Labour MP for Wrexham, said yesterday he believed as many as 25 of his colleagues would join him in opposing the cut, when the social security bill reached its report stage, with up to 60 abstentions.

A handful of parliamentary private secretaries - the most junior members of the government - have expressed concerns about the wisdom of the policy, and could be sacked if they fail to back the bill.

But yesterday Stephen Byers, education minister, said there would be no U-turn, arguing that government policy was designed to help lone parents "swap the giro cheque [benefit payment] for the pay slip".

The social exclusion unit, to be headed by Moira Wallace, a former private secretary to John Major, former Conservative Party prime

minister, will be told to focus on three areas initially: truancy and exclusion from school, homelessness and the social problems on housing estates. It has been asked to report by next spring.

As part of the drive to tackle truancy, Mr Blair will announce a £200m initiative to set up after-school clubs at half of all secondary schools and one-quarter of primary schools by 2001.

However, Nigel de Gruchy, general secretary of the National Association of Schoolmasters and Union of Women Teachers, said alternative educational provision for truants and disruptive children would be better than "gimmicky after-school clubs".

• Tesco, the supermarket chain, will today announce that it plans to create 1,500 jobs for people taking part in the government's New Deal welfare-to-work scheme.

Exchange looks at trading hours

By Christopher Adams

The London Stock Exchange may make changes to its trading hours and the way it calculates closing prices, after wild swings in recent dealing.

The exchange will shortly announce measures for New Year's eve, when it traditionally opens for only four hours - from 8.30am to 12.30pm - and volumes are often much lower than normal. It is likely to limit trading on December 31 to a shorter period, possibly one or two hours, reducing the likelihood that illiquidity will cause prices to swing.

The exchange is also considering whether to adopt practices used by exchanges elsewhere in the world. It could, for example, calculate the close by averaging the prices at which later trades are executed and bring its dealing hours into line with those of London's traded

options market, which closes earlier.

At present, the last deal of the day is taken as the closing price. But the introduction of electronic share trading has led to unusual volatility recently and complaints that the market is vulnerable to manipulation.

The system has suffered from a lack of liquidity at the start and end of the trading day. Last week, two equity traders at J.P. Morgan were suspended while the US investment bank investigated charges they had tried to manipulate the FTSE 100 index in late trading.

Fund managers have since pressed the exchange to take action, in part because any sharp moves on the last trading day in each month feed into the valuation of the portfolios and affect the commission they charge. "We're going to be looking closely at all of the options," the exchange said.

Miner attacks power company

By Simon Holberton

Celtic Energy, a south Wales coal producer, has accused National Power, Britain's biggest generator, of frustrating competition in electricity generation and harming the market for coal by attempting to prevent it buying a disused power station.

Keith McNair, Celtic's chief executive, has written to John Battle, science, energy and industry minister, and Stephen Littlechild, the electricity regulator, complaining that his attempt to buy a 360MW coal-fired

power station at Uskmouth, near Newport, in Wales is being unfairly opposed by National Power.

The dispute between the two companies poses a dilemma for the government as it forces ministers to choose between two conflicting aims of policy: a cleaner environment and support for the coal industry. It comes after a week of high emotion about the future of deep coal mining in England and a government U-turn on gas-fired power stations.

Celtic wants to re-commission Uskmouth which

National Power sold for scrap in 1995. Its ability to do so, however, is contingent on a licence to operate from the Environment Agency.

The Welsh miner claims that as Uskmouth was originally licensed in the 1960s it should qualify as "old plant" for the purposes of environmental regulation.

Such regulation would commit it to fitting the best available technology to reduce emissions only as long as the costs were not excessive.

National Power, which is Celtic's biggest customer,

confirmed at the weekend that it had written to the Environment Agency arguing that the plant should be subject to "new plant standards" requiring Celtic to invest in the latest technology to reduce emissions of ash, and the oxides of sulphur and nitrogen. Such technology would cost many times more than the £40m Celtic thinks it needs to spend to revive the power station.

Mr McNair said National Power's actions "may obstruct the emergence of competition".

Poet to bring out creativity in retail staff

By Peggy Hollinger in London

Eating a Kit-Kat in the dark. I reflect that chocolate cannot give you spots unless you eat it.

An appropriate contribution from Britain's first bard of the aisles, Peter Sansom, who has been appointed resident poet at Marks and Spencer.

Mr Sansom, the Huddersfield poet known for his zany, conversational style, takes up a six-month residency at Britain's much-loved, but somewhat conventional, retailer next month. His job is to bring out the latent talent in M&S's 57,000 UK staff, as well as to pursue his own writings free from the financial worries which often dog today's struggling poets.

M&S said the aim was not to have sales staff spouting verse at the tills. Instead, Mr Sansom would be giving weekly poetry readings and workshops in head office and at stores around the country simply to encourage the "creative side of our people", said Ms Cheryl Kuczyński of M&S. "It is about getting the poet out in your staff."

Mr Sansom's appointment is part of what appears to be a growing corporate interest in poetry in the workplace. Law firm Mishcon de Reya earlier this year appointed its own resident poet, Lavinia Greenlaw, and London Zoo was also reported to be interested in the idea.

But unlike the ancient bards of old, the resident poet will not be forced to sing the praises of his or her

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THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

TODAY

Abbey National Treasury Gtd FRN 1998 \$14.30
Bowthorpe 3.43p
British Dredging 2.8p
Hallifax FRN 1998 £182.31
Hammerson 10.5% Bd 2013 £1075.0
Hartsons & Grosfield 1p
Housing Assoc Fdg 81.4% Sec Ln-Bd Nts Jun 2027 £412.50
Invesco English & Int Tst 0.6p
MEPC 8.4% Bd 2006 £87.50
Nippon Credit Bank Fin Gtd Fxd/FRN Dec 2004 \$3250.38
Norway FRN Dec 2002 \$144.46
Panna 1.2p
Read Int 5% Cm Pf 1.75p
Do 7% Cm Pf 2.45p
Upeksa FRN 1998 \$311.03

TOMORROW

Anheuser-Busch \$0.26
Electric Power Dev 81.4% Gtd Nts 1998 \$81.25
European Inv Bank 91.4% Ln 2008 £237.50
Groupe Chey Gerard 2.2p
Hallifax 71.4% Nts 1997 £375.0
Hydro-Quebec 61.4% Do Ser IK 1998 \$55.0
JJB Sports 2.25p
Kleinwort Dev Fd 20p
Murray VGT 2.5p
Residential Mortgage Sec 1 Class A Mtg Bkd FRN 2034 £159.42
Do Class M £192.28
Terneco \$0.30
UK 71.4% Bd 2002 \$72.50
Walker Greenbank 1.3p
Whitbread 81.4% Do 2021 \$4.0625

WEDNESDAY

Allied-Signal \$0.13
Anglo American Inv Tst R1.34
Anglo Irish Bank FRN 1998 £185.43
Asahi Bank Y3.50
Autobacs Seven Y16.0
Bank of Tokyo Mitsubishi Y4.25
Central Hispano Eurocapital Ser A FR NVTg Pf \$0.51
Chevron \$0.58
CRT 3.3p
Dai-ichi Kangyo Bank Y4.25
Dun & Bradstreet \$0.22
Electronic Data Systems \$0.15
Exxon \$0.41
Formfactor 1.22p
Fuji Bank Y4.25
General Motors \$0.50
Hallifax 13.4% Perp Sb Bd £3406.25
Do FRN 1998 \$14.48
Hapworth 3p
Hitachi Credit (UK) 1.7p
Houston Inv \$0.375
ISM \$0.20
Jilly £0.20
Mitsubishi Y4.0
Mobil \$0.53
National Australia Bank Sb Var Rate Nts 2000 £186.05
Nat West Bank Var Rate Cap Nts 2009 £191.04
NEC Y5.5
Portland Bldg Scty FRN 1999 £184.31
Prestwick 0.7p
Road Mgmt Int 8.18% Gtd Sec Bd 2005-21 £458.0
Sakura Bank Y4.25
Sanwa Bank Y4.25
Standard Chartered Und Prim

Cap FRN (Ser 3) \$312.83
State Bank of New South Wales Sb FRN 2004 A\$88.04
Sumitomo Bank Y4.25
Sumitomo Bank Cap Mkts Gtd Fxd/FRN 2003 \$81000.0
Sumitomo Heavy Inds FRN 1998 Y25159.0
Sumitomo Realty & Dev 3.05% Nts 1997 Y305000.0
Do 3.55% Nts 1999 Y355000.0
TDK Y25.0
Talest 1.1% Bd 1998 Y710000.0
Do 7.1% Bd 1999 Y710000.0
Texaco \$0.45
Toshiba Y4.25
Toshiba Y5.0
Treasury 8% 2008 \$4.0
Utd Technologies \$0.31
Versailles 0.215p
Warner-Lambert \$0.38
Wesco 0.8p
Westpac Banking Ftg Rate Dep Rcpts 2002 £1823.12
White Young Green 1.5p
Young & Co's Brewery A 7.75p
Do NVtg 7.75p

THURSDAY

Chugoku Elec Power 61.4% Nts 2001 \$314.24
Hewlett-Packard 4.5p
Kubota FRN 1997 Y23263.0
Polar \$0.17
Sotobay's Class A Lm/Vtg \$0.10
Telstra 6% Nts 2006 FF800.0

FRIDAY

Abbey National Treasury 5% Gtd Nts 2000 £50.0
Anglo-Welsh 1p
Capitol 1.8p
Cash Converters Units ASO.022
Cobham 4.05p
Deam Corp 0.3p
DFS Furniture 8.8p
Eaton Fin 12.1% Un Ln 2014 \$6.25
English China Clays 5.5p
Exchange 12% 2018/17 \$8.0
Fidelity Special Values 1.32p
Hammerson 61.4% Sb Cv Bd 2006 £162.50
Investors Cap Tst 51.4% Cm Pf £1.8375
Malabar Global Dep Rcpts \$0.05
Murray VGT 2 1.25p
NT & T Y2500.0
Northumbrian Fine Foods 0.1p
Pentax Energy 0.2p
Prestpac 3.2p
Revelation Pricedaily 0.1p
Rolling Stock Fin 1 Class A1 Asset Bkd FRN Oct 1998 \$8.21
Do Class A2 Oct 1999 \$8.21
Do Class A3 2000 \$8.23
Do Class A4 2002 \$8.25
Do Class A5 2004 \$8.28
Do 2 Class A 2004 \$8.06
Do Class B 2004 \$8.13
UDO 7.75p
Westpac Banking FRN Dec 1997 \$15.34

UK COMPANIES

TODAY

BOARD MEETINGS:
Finals:
API
Alders
Celltech
Electronic Data Processing
United Drug
Interims:
CART
Carole Eng
Faulstich Trading
Highams Systems
Jarvis
Jasmin
Marston Thompson & Marsh
Total Systems

TOMORROW

COMPANY MEETINGS:
DFS Furniture, Mount House Hotel, Warrimour, Doncaster, South Yorks., 10.00
Estates & Agency, Institute of Directors, 116, Pall Mall, S.W., 11.00
GR, The Registry, Royal Mint Court, E.C., 11.00
Prestpac, Middleover Court Hotel, Etwell Road, Middleover, Derby, 11.00
BOARD MEETINGS:
Finals:
Apollo Metals
Bradstock

Compass
Holmes & Marchant
Hozelock
Leeds
Vaux
Interims:
BSS
BTP
Berkeley
Drummond
Ensur
Feedback
Fuller Smith & Turner
Hals
Mentmore Abbey
Photobition
Real Time Control
Shelton (Martin)
VHE

WEDNESDAY

COMPANY MEETINGS:
AG, St Paul's House, St Paul's Square, Leeds, 11.00
Dickie (James), 29, Gresham Street, E.C., 11.00
Dragons Health Clubs, Imperial Way, Purley Way, Croydon, 11.30
BOARD MEETINGS:
Finals:
Airtours
Firth Rison
Metrolink
Morland
Sage
Interims:

British Land
Bulmer (HP)
Limit
Martin Currie Smaller Co's Inv Tst
Powderject
Pharmaceuticals
Scottish Hydro Electric
Smith (David S)
Vibroplant

THURSDAY

COMPANY MEETINGS:
Dunham-Bush, Arts Club, 40, Dover Street, W., 10.00
Fennell, Old Bridge Hotel, 1, The High Street, Huntingdon, 12.00
Fleming Chinese Inv Tst, Chartered Accountants Hall, Moorgate Place, E.C., 3.30
Glasgow Inc Tst, 16, Robertson Street, Glasgow, 12.00
Medays, 1, Mifflin Square, E.C., 11.00
Northern Venture Tst, Marriott Hotel, Gateshead, Tyne & Wear, 1.00
Tyzeck Precision, 3, Meadow Court, Amos Road, Sheffield, 3.00
Wardle Storeys, Brantham Works, Brantham, 11.00
Manningtree, Essex, 9.30
BOARD MEETINGS:
Finals:

Countryside Properties
Galen
Hunters Armley
Interims:
Atlantic Telecom
Harvey Nichols
Racal Elec
Shield Diagnostics

FRIDAY DECEMBER 12
COMPANY MEETINGS:
Foreign & Colonial
Emerging Mkts Inv Tst, Exchange House, Primrose Street, E.C., 12.15
Gartmore European Inv Tst, Fenchurch Exchange, 8, Fenchurch Place, E.C., 2.15
BOARD MEETINGS:
Finals:
Granger Tst
Interims:
Bandt
Brassey
Swan (John)

Company meetings are annual general meetings unless stated. Reports and accounts are not normally available until six weeks after the board meeting to approve the preliminary results. This list is not comprehensive since companies are not obliged to notify the Stock Exchange of announcements.

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Conferences & Exhibitions

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THIS WEEK

Name one after the 'Gipper'

DATELINE

Washington: a proposal to call the city's airport after Ronald Reagan has provoked a bitter dispute, writes Mark Suzman

Securing agreement on anything in Washington is difficult. But when it comes to deciding what great events or people merit their own memorials in the US capital, it is nearly impossible. More than 50 years after the fact, for example, there is still no consensus on an appropriate testament to the second world war – arguably the country's greatest and most morally unambiguous military triumph. A proposal to do just that has been attracting intense debate among the city's chattering classes for months.

In this particular case, the argument is as much about architecture as historical resonance: opponents claim to object to the design, which would carve out a huge chunk of the grassy Mall at the city's heart, rather than the spirit in which it has been put forward.

The same cannot be said of a much more contentious proposal to rename the city's national airport after Ronald Reagan, the former Republican president, which

has prompted howls of outrage from many of its staunchly Democratic residents.

It is true that the most prominent point on the skyline is the obelisk named, like the city itself, after the country's first president, while among the main tourist attractions are imposing marble edifices named after Thomas Jefferson and Abraham Lincoln. But they are the exceptions which prove the rule. In a town filled with politicians hoping to carve out their own legacy, agreement on the national relevance of their predecessors is hard to come by.

Even when new memorials are built, the final result rarely meets with unambiguous praise, especially in the politically correct 1990s.

This year, Bill Clinton, the US president, presided over the opening of a site to commemorate the

country's first and only four-term president, Franklin Delano Roosevelt. But the occasion was marred by complaints from disabled activists on whether FDR should be portrayed in a wheelchair or not. (He was not but, after Mr Clinton intervened,

funds were appropriated for a new statue of the wheelchair to add to the memorial.)

It is revealing that it took 50 years to establish a memorial to FDR, widely regarded as the most successful president this century. More so, when you realise that the Roosevelt statue was the first such construction since 1943 when FDR himself opened the Jefferson Memorial.

Republicans are unwilling to wait even a fraction as long to honour a man they believe to have been the equal of FDR. Although he is still alive, the nostalgia industry for "the Gipper" – now afflicted with Alzheimer's disease – is in full swing. Already, the government has agreed to name its newest federal building after him – an international trade centre that, second in size only to the Pentagon and costing more than \$800m, has

become the most expensive federal building yet constructed.

Many admirers feel that an over-budget behemoth set to house the Environment Protection Agency is an inappropriate memorial for a man who led the fight against intrusive federal bureaucracies and won the cold war. In lieu of his own FDR-like monument (which many hope will follow), they are pushing for the airport name change as a substitute.

The idea was floated last month to little fanfare, but has been steadily gathering momentum. It has been endorsed by the Republican Governors Association, and is almost certain to be put to a vote when Congress returns in January. Newt Gingrich, House speaker, has said there is a "very high likelihood" Congress will try to pass such a

bill in time for the former president's 87th birthday in February.

But Mr Reagan was detested by his opponents almost as vehemently as he was adored by his Republican acolytes and his relationship with Washington was, to say the least, a love-hate one. A strong groundswell of opposition has therefore been building in the city. Some local residents are even warning that if the airport becomes Reaganised, they will use instead the far less convenient Dulles airport (named after a man whom they regard as a less-objectionable Republican who served as Eisenhower's secretary of state).

As an irritated reader put it in a letter to the Washington Post: "If we are to randomly name public edifices for those who made America feel good, where does one find the Robin Williams National Cathedral or the Barry

Manilow turnpike?"

Undaunted, proponents of the idea cite precedents for other leaders not yet deemed grand enough for a permanent memorial. John F. Kennedy, for example, has his name attached to the city's premier arts centre as well as New York's biggest international airport. Even his brother Robert, only a presidential candidate at the time of his assassination in 1968, had his name emblazoned on the stadium that for years hosted the Washington Redskins, the local football team.

If a local referendum were held, the idea would almost certainly be defeated. But the airport is owned by the federal government. That means city officials cannot overrule a vote in favour of the name change by the predominantly Republican Congress. And with Mr Clinton casting an anxious eye to his own impending legacy, few are betting he will want to use his presidential veto to set a precedent that could rebound on him in years to come.

FT GUIDE TO:

ENLARGING THE EU EASTWARDS

People are saying this is the decisive week for the EU plan to expand membership to the former Communist countries of central and eastern Europe. Is this true or Euro-hyperbole? If all goes to plan, the EU Summit in Luxembourg on Friday and Saturday will select a group of countries to begin negotiations in March 1998 about entry into the union early next century. The favoured fast-track countries are the Czech Republic, Hungary, Poland, Estonia, Slovenia, and Cyprus.

Sounds like somebody is going to be disappointed. There are plenty of bruised feelings in Bulgaria, Latvia, Lithuania, Romania, and Slovakia. In particular, the two Baltic states have lobbied furiously to be put on an equal footing with neighbouring Estonia.

But true to form, EU leaders will do their utmost to produce a compromise which softens suggestions that there are any losers. No one wants to create a new iron curtain in Central Europe.

So what's the deal? The slogan is "differentiation without discrimination". EU leaders will support the European Commission judgement that five central European countries plus Cyprus have made enough economic progress to open accession negotiations. But they will support the principle that other countries can join the advance guard as soon as possible.

They may also blur the distinction by agreeing that all 10 applicants should be screened to see how far they meet the so-called *acquis communautaire* which covers the obligations of membership and compliance with the single market.

That sounds like a common starting line for everybody?

The correct term is the "regatta approach". Some countries, like Britain, thought they had torpedoed the idea, but the Danes and Swedes have lobbied on behalf of their Baltic buddies. The result is that Latvia and Lithuania have a good chance of joining the advance guard in 1999 when the serious bargaining about future membership begins.

In the meantime, all countries will be offered "accession partnerships" which will offer money and technical assistance in return for making progress towards fulfilling the conditions of membership.

What makes the eastern enlargement different from the previous expansions of the union? The entry of post-imperial Britain, the accession of the club Med countries, and the Nordic expansion in the 1990s bear no comparison to the his-

toric challenge of eastern enlargement. The accession of 10 relatively poor, farm-intensive former Communist countries will force the EU to transform the way it does business. It will mean streamlining its institutions, rethinking the national veto, the right to an EU commissioner in Brussels, even the right to work in one's own language. It will also mean reforming the Common Agriculture Policy and regional aid which have powerful political constituencies and account for 80 per cent of the EU budget.

It sounds like a recipe for inertia? Remember that the absorption of the 10 former Communist countries would mean the EU adding 28 per cent to its population but only 4 per cent to its gross domestic product on a purchasing power parity basis.

Even though countries such as Hungary and Poland are growing fast, the average per capita GDP is only one third of the average EU level. So that poses a dilemma: large cuts in regional aid and the CAP would risk triggering a backlash in western Europe against eastern enlargement.

Is there any way out of the impasse? The seeds of a compromise can be found in the European Commission's Agenda 2000 document which proposes a framework for a deal on the EU budget. The idea is to strike a balance between the net contributors such as Britain, France, and Germany, and the net beneficiaries led by Spain. Thus the Germans are adamant that the budget remains within its current agreed ceiling of 1.27 per cent of EU GDP. But Spain is determined to preserve as high a share of regional aid as possible.

Provided there is growth of 2.5 per cent per annum for the EU, there should be about 75 billion Ecu for the applicant countries between 2000 to 2006. The only drawback is that the commission's proposal favours the five front runners.

Any idea when the first wave of central Europeans will join the union? The commission has pencilled in 2002-3. But this may be ambitious because the applicants have to make enormous strides to comply with the single market and enforce minimum standards in the environment, health and safety and social policy.

Enlargement is also hostage to the EU's own internal agenda. Member states still have to hold another constitutional conference (IGC) to streamline the commission and to rebalance power between small and large countries. Enlargement is the EU's mission for the millennium, but it is going to be a long haul.

Lionel Barber

The Monday Profile: Cesare Romiti, Fiat

The politics of succession



At the grand old age of 74, Italy's most powerful industrialist is facing the most difficult decision of his career. Cesare Romiti, chairman of Fiat, the country's biggest private enterprise, is being wooed to lead Italy's right-wing opposition. Senior politicians are pressing him to become their standard-bearer because of the fading political fortunes of Silvio Berlusconi, media tycoon and former prime minister.

Mr Romiti is due to step down next June from the car group he has run for the past 25 years. The mandatory retirement age at Fiat is 75. But the company's combative and outspoken chairman has never been the retiring kind. For months there has been speculation that he will try to bend the Fiat rules to extend his mandate by at least a year.

For months all the talk in the *salotto buono* – the "good drawing room" of Italian business and finance – has been of Mr Romiti moving on to some other power base such as the chairmanship of Mediobanca, the most secretive and influential of Italian banks, or Banca Commerciale Italiana.

But now the question on everybody's mind is whether he will take the plunge into politics. Mr Romiti is clearly enjoying all the fuss. Speaking in his new suite at Fiat's recently refurbished headquarters in Turin, he says: "Even if I had the desire to go into politics, I would not be able to... To be a politician you need to be more cautious. You must often compromise. And you know me. When I express a thought it is what I really think."

He is not altogether convincing. Mr Romiti has always enjoyed playing a vocal role in Italian politics. Romano Prodi, the centre-left prime minister, has let it slip on various occasions that he considers Mr Romiti to be one of his biggest enemies. The Fiat chairman has over his long career consistently criticised government policies and vented his own macroeconomic and political remedies. He has

been a critic of Italy's approach to European monetary and economic union. "Not because I'm anti-European – I really do believe the future of this country is Europe – but because I disagree with the method the government has adopted," he explains. But he disagrees with the government's policy of squaring the Maastricht arithmetic without taking into account the effects on the real economy.

"Sorting out our public accounts should have gone side by side with a policy to promote growth and development. Look at Spain. Here in Italy, many people considered Spain inferior to us. Yet not only have they put their

public accounts in order but their economy is growing by 3.3-3.4 per cent this year. Italy will grow by only 1.2 per cent this year and half of that thanks to the automotive sector and the incentives to buy new cars."

His hobby-horse is unemployment. "It's our biggest handicap. It's a burden to go to Europe and stay there with such a heavy unemployment rate," he says. Italy's unemployment rate is running at 12 per cent and the gap between the rich north and the poor south is widening.

Italy's problems have been aggravated by its political instability, he says. "The danger of the lack of an opposition risks

creating a Bulgarian-style governing majority with a mish-mash of left and centre ideologies." The recent government crisis emphasises the contradictory nature of the coalition with one constituent, the hardline Refounded Communist party, "hardly – or not believing at all – in Europe, privatisations and the real market".

When it comes to the succession at Fiat, Mr Romiti is just as evasive as he is about his political ambitions. The issue has excited public attention since Giovanni Alberto Agnelli, the young designated heir of the Agnelli Fiat dynasty, developed cancer.

Echoing Mr Agnelli, who is the company's main shareholder and honorary chairman, Mr Romiti says the succession will be resolved by the company's core shareholders. "When it happens, it won't be a big event. Whether A or B is appointed is not so important. After all, I often ask people if they can tell me who is the chairman of Shell and they are at a loss for an answer."

What is important is the performance of the group. Fiat this year is expected to report record pre-tax profits of well over 14,000bn (€13bn) after refocusing on its core automotive activities and expanding its international operations, especially in developing countries.

Mr Romiti emphasises that the group's management has been overhauled by a new generation of executives groomed within the company. "My aim has been to create a company with a cohesive, loyal and determined group of managers. I'm proud because I think our results confirm our success in putting together a well-organised orchestra."

The two-hour conversation over, Mr Romiti's press relations man disclosed that the chairman had whispered: "We seemed to have talked a lot about politics and very little about Fiat." But was Mr Romiti upset? Not at all.

Paul Betts

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Remote reward of pay restraint

The UK's chancellor may have overstated the scale of the pay-off

From Philip Snowden to Denis Healey, every Labour chancellor has urged Britain's employees to show restraint when negotiating pay. The request has always fallen on deaf ears, so when Gordon Brown made a similar plea in his Green Budget last month he knew better than to rely on an appeal to people's better nature.

Instead the chancellor relied on a threat. He warned that the Bank of England would punish excessive pay increases by raising interest rates to safeguard its target for inflation. "It is in no one's interest if today's pay rise threatens to become tomorrow's mortgage rise", he told MPs.

The chancellor's emphasis on wage restraint receives backing from a recent study by Sheetal Chand, at the International Monetary Fund in Washington. He found that the UK stood out among the Group of Seven industrial countries as one in which excessive real wage growth – that is to say unjustified by productivity – had a particularly detrimental effect in reducing real economic growth and raising inflation for a given rate of nominal income growth.

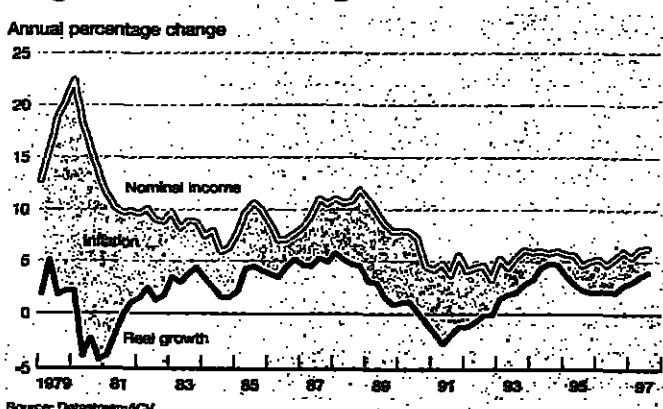
But what sort of reward could workers expect for their virtuous self-denial? The Treasury tried to spell this out in the Green Budget document, arguing that an improved supply-side performance – including pay restraint – would allow the economy to sustain higher growth during the next few years than past performance would seem to permit. The Treasury's base case sce-

nario assumed that economic activity has now risen slightly above the "potential" level which is consistent with stable inflation. Potential output is itself growing, because of ongoing improvements in labour productivity – output per person – and a secular rise in labour supply as growing female participation in the workforce outweighs falling male participation. That implies the economy can probably sustain output growth at roughly its long-term trend rate of about 2.25 per cent.

But with output growth now running at almost 4 per cent a year, economic activity is rising further above potential all the time. Inflation is already slightly above the government's 2.5 per cent target, which implies that growth will have to be reduced below the long-term trend rate for a while to close the widening "output gap". That is exactly what the Treasury expects: growth should slow from 3.5 per cent this year to 2.25 per cent in 1998, dropping to a below-trend 1.5 per cent in 1999 and then returning to the trend rate in 2000 once inflation has been brought back on target.

The Treasury then presented an alternative profile for output growth, to show what might be possible with pay restraint and if the chancellor's "welfare-to-work" initiative succeeded. By reducing wage pressure, the Treasury argued that this would increase the supply of labour available at any given real wage rate, allowing the economy to sustain a lower unemployment rate without inflation rising.

Wage inflation bad for growth



If economic activity is thought to be slightly above potential, it follows that unemployment is slightly below its sustainable rate (the so-called "non-accelerating inflation rate of unemployment" or *Nairu*). Unemployment is about 7 per cent on the ILO's standard measure, in the middle of the 6-8 per cent range within which most current estimates of the *Nairu* lie.

To make the case for pay restraint, the Treasury argues that an improved supply-side performance could reduce the *Nairu* by half a percentage point in 1998 and 1999, and by a further quarter-point in 2000 – cutting the sustainable level of unemployment by 350,000 over three years. These are big numbers, which surely overstate the potential benefits of modest pay restraint

and welfare-to-work – as well as the speed with which they might be realised.

The wage subsidies which are central to the welfare-to-work programme are unlikely to produce any net increase in employment, on international evidence. Subsidising the long-term unemployed at the expense of the short-term unemployed, and people in work should help to reduce wage pressure, but not dramatically.

David Bloom, at HSBC James Capel, argues that the employment opportunities planned for young people in the welfare-to-work programme might even tighten the labour market in the short-term and put upward pressure on wages. He sees a risk "that the government's employment measures could stretch the new-found relationship between low unemployment and stable

average earnings growth to a cyclical breaking point".

But assume that this risk is overstated and pay restraint and welfare-to-work do reduce the sustainable level of unemployment by as much as the Green Budget suggests. The Treasury argues that the projected fall in the *Nairu* is equivalent to a 1.5 per cent one-off increase in potential output. That implies the inflation target could be delivered with growth of 2.75 per cent next year, 2 per cent in 1999 and 2.75 per cent in 2000.

But this higher growth path will not emerge automatically. As Mr Brown made clear in his Green Budget speech, much depends on the Bank of England. The chancellor and his officials may believe that the economy could sustain 2.75 per cent growth next year, but if the Bank's monetary policy committee does not agree with them then we will never find out.

Is it likely that the monetary policy committee could be convinced quickly enough that Britain was embarked on a mini supply-side miracle for it to set policy loose enough to deliver 2.75 per cent growth next year? Almost certainly not.

Restraint would certainly be welcome in the forthcoming wage round, and the Bank would reward it. But the chancellor may be overstating the speed and size of the pay-off which employees would receive.

Nominal Income and the Inflation-Growth Divide, by Sheetal K Chand, IMF Working Paper 97/147, November 1997.
E-mail: Robert.Chote@FT.com

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MANAGEMENT

Among the world's big corporations, which will still be in good shape in 10 or 20 years? Try these for size:

- American International Group (AIG), the US insurer.
- Heineken, the Dutch brewer.
- Hewlett-Packard, the US electronics manufacturer.
- J.P. Morgan, the US bank.
- SGS-Thomson, the Franco-Italian semiconductor maker.

The names might seem rather a mixed bag. But these are the winners thrown up by a five-year research programme from Insead, the Fontainebleau-based business school.

The underlying premise of the study is straightforward. The success or failure of companies in the marketplace depends on a complex series of actions, which require many years to take effect.

By studying the past history of companies, it should be possible to spot the factors that have made a difference to long-run performance. On that basis, the Insead research team has bombarded companies with questions to find if they are doing the right things today to succeed in future.

By virtually all measures, AIG tops the rankings by a clear margin. Given the company's high reputation, this is interesting but not implausible. Some other findings are less expected.

Among electrical companies, such venerable US names as Xerox and Emerson Electric are edged out by Europeans: not only by SGS-Thomson, but by Danfoss, the Danish air conditioning and refrigeration company, and by Schneider, the French electrical engineer. And among consumer goods companies, Procter & Gamble trails behind Heineken and Whitbread, the UK brewer.

The study has some notable limitations. The companies quizzed, all among the world's top 1,000 by revenue, were drawn only from Europe and North America. Thus, the top car companies were found to be BMW, Volkswagen and General Motors. Toyota of Japan, an obvious candidate, was not included.

Second, companies were drawn from only six sectors: autos, computers and electrical, financial services, fast-moving consumer goods, oil and chemicals, and other services. Third, companies were ranked only if they gave adequate responses to the survey. The questionnaire, consisting of 157 questions, had to be answered by executives in various functions and at various levels of seniority within each company.

So what are the measures of a company's success? In essence, the 157 questions were boiled down to 12 "capabilities": customer orientation, technical resources, market strategy and so forth. Companies were assigned a score for each, and the results totted up to give an overall measure of market effectiveness.

According to Jean-Claude Larrière, who headed the project, it was important to keep the questions specific. Companies were asked, for instance, whether they had a web site, and how responsive their telephone operators were. The answers counted towards their score on customer orientation.

Similarly, companies were asked whether they had rationalised their portfolios of products

The world-beaters of tomorrow

How can you tell if a company will be successful in the long term?
Tony Jackson analyses the secrets of longevity



or services, as a means of measuring their market strategy. Another specific question – whether companies operated in a common language – counted towards corporate culture.

At the same time, the questions had to be put to executives at various levels of seniority. For Professor Larrière, this is the chief answer to one obvious criticism of the study: that companies were asked to rate themselves. The nearer the top of the company, it appears, the closer the view of its performance. But it is very rare, Prof Larrière claims, for companies to delude themselves at lower levels of the organisation.

Take International Business Machines, he says, with which he was working when it ran into trouble some years ago. "The culture might have looked monolithic," he says, "but there was a lot of dissent internally."

The aim, in fact, is to conduct a kind of corporate intelligence

test. "The information is there in companies," Prof Larrière says. "There may also be illusion and political games, but you can correct for that."

So what are we to make of the findings? Can it really be true that Whitbread, viewed in the UK as solid but unremarkable, is better equipped to survive than Procter & Gamble?

On closer inspection, the picture is not clear-cut. Procter & Gamble ranks very high in the areas that one might expect: its market strategy and market operations, and in its international reach. Whitbread ranks higher in organisation and systems, human resources and innovation.

Procter & Gamble also ranks low in customer orientation. This seems surprising; but not, Prof Larrière insists, to those within the company. "They have been so good at marketing," he says, "that sometimes they have not concentrated enough on the cus-

tomers. Their top management has been trying for several years to change that."

In oil and chemicals, the top company is W.R. Grace, ahead of Shell, DuPont and Monsanto. This might seem odd, given that W.R. Grace has recently undergone a palace revolution and the replacement of almost the entire board.

Again, though, the detail has some plausibility. W.R. Grace ranks low on mission and vision, and on human resources. But it more than compensates with a very high ranking for customer orientation and market operations. And indeed, Grace is a world leader in producing specialty chemicals for individual customers.

In spite of its apparent defects, the study has one unusual virtue: that of attempting to put US and European companies on a consistent footing. American readers are bound to suspect European bias; but the study claims to be

objective, which is more than can sometimes be said of US triumphalism.

Of the six sectors surveyed, US companies come top in four: in computers with Hewlett-Packard, in financial services with AIG, in oil and chemicals with W.R. Grace and in other services with DHL, the international courier.

Europeans come top in autos with BMW, and in consumer goods with Heineken. Both rankings are credible enough: although it is perhaps an unfortunate coincidence that Prof Larrière is Insead's Alfred H. Heineken professor of marketing.

As always with wide-ranging studies of this nature, there is fascination in less familiar names. In the electrical sector, who would have thought that Groupe SEB, the French maker of kitchen appliances, would come ahead of Emerson Electric? Or that for mission and vision, the Danish shipping company A.P. Møller would emerge streets ahead of Shell and British Airways?

In general, the study is offered as a means of showing how the best companies go about their business, and allowing others to diagnose their shortcomings. Go back to IBM, Prof Larrière says. "There was a time when it was the best at customer orientation. If we had had this tool 30 years ago, we could have seen it going wrong."

The MECA Report on the Competitive Fitness of Global Firms. Insead, 77305 Fontainebleau Cedex, France.

My Secret Weapon Dick Brown: candour

The world has more bright than effective people



Dick Brown, aged 50, was appointed chief executive of Cable & Wireless, the telecommunications company, in May 1996. He was previously president of H&R Block, a Kansas City-based tax preparation company which also owns CompuServe, the online service provider.

My philosophy is that people inherently want to do a good job. That doesn't mean you have to be easy on people; you have to be fair with people. Management generally does not differentiate performance enough. I provide constructive, concise and candid feedback.

I do performance appraisals for 14 people. I use two blank pages for each. I say one is for the things you do well. The other, the things you do better. That is much harder to do than simply to check a box.

I rank my people. For example, I might say: "If I step back and look at the relative contribution in your job that you have made compared with the other people that report to me, you rank in the third quartile."

This is not an attempt to set people against each other – the reality of life is that everyone doesn't perform with equal effectiveness. It often happens that it spurs people on. They perform at levels they thought they would never achieve.

It is built on a foundation of trust and a spirit of constructiveness. While we might think we are doing someone a favour by avoiding an evaluation that might sting a bit, it actually makes it worse.

People would say that I give out very consistent messages. I encourage people to be agents of change, to take chances, to act with urgency, not to fit in.

It is hard for people to act with urgency if they are in a working environment where making mistakes leads to dismissal. Management must say that it is okay to make mistakes, just not to make the same mistakes over and over again. Another lesson is not to be seduced by things that are inaction in disguise, such as assessing, monitoring or reviewing alternatives.

The world has more bright people than effective people. I like people who are both, but if I had to choose between high intelligence and effective execution, I would take the effective execution all the time. It is not to disparage the need for creativity and foresight but unless it is translated into action it is just a dream.

I strongly believe that companies don't fail because they can't strategise; it is because they can't execute. Thinking doesn't change a business, essential as it is. Action changes a business.

Leadership must set an example. I expect things to be accomplished in hours not days, weeks not months. I hire people without taking months to do it. I do things that are bold and not incremental. I try to stay plugged into the mainstream of the business.

Leadership is critical because standards and expectations get set at the top of an organisation. Any organisation that has poor service, weak finance and a lack of strategy will have a management team that tolerates those conditions. Leaders get the behaviour they tolerate.

By nature I am an upbeat person. I am a leader. I have to have realistic, uncompromising standards but I also hold out the hope that there is a better tomorrow, that we are going to be successful in continuing to improve shareholder value.

From an early age, I took positions of responsibility: captain of team, president of class and so on. I felt at an early age the weight of accountability. It is engrained in my psyche that in the end, there are few real short cuts. Everything involves hard work, energy and focus. Everything is done through people.

Every fortnight, I meet a group of employees. These are unstructured, interactive sessions that take on the personality of the group. When we started a year and a half ago, people were looking into the past; they did not want to talk about tomorrow. Now they all want to talk about tomorrow.

Anything can happen. I get tough questions. People disagree. They feel the freedom to argue. I get a real lift from these sessions. I get rejuvenated by the candour, enthusiasm and professionalism of these meetings.

Interview by
Vanessa Houlder

Companies ranked by overall market effectiveness capability

1 AIG	13 L'Oréal	25 Lucent Technologies
2 Heineken	14 DuPont	26 Microsoft
3 Xerox	15 Ecom Corp	27 Citicorp
4 J.P. Morgan	16 Schneider	28 Swissair
5 SGS-Thomson	17 Intel	29 Fortis
6 Whitbread	18 Xerox Corp	30 Norsk Hydro
7 Danfoss	19 British Telecom	31 United Technologies
8 CPC International	20 ING Group	32 Philips Electronics
9 Emerson Electric	21 Mercedes	
10 Danfoss	22 Philips Electronics	
11 W.R. Grace		
12 DSM		

What do my staff think of me – and do I want to know?

Dear Professor Hunt,
I've been asked to look at whether we could improve the effectiveness of our managers by introducing 360° feedback. The idea sounds fraught with danger to me. Don't you think it's asking for trouble to encourage subordinates to criticise their managers? I'd certainly be nervous about taking part – though I hope to admit I'd be intrigued to hear what my department had to say about me. Yours, A. Septic...

Prof Hunt replies:
You're right to be concerned: done badly, 360° feedback is potentially lethal. But handled carefully, these surveys can provide a powerful lever for change. For the first time in many organisations, the capability of the manager is assessed by those he or she manages.

First, let us be clear what you are talking about. There are numerous forms of this feedback. You probably already have an annual appraisal system where you as a boss assess the performance of your direct reports (subordinates), help them establish goals and prioritise them, and discuss their training needs. The annual review is one way to ensure the flow of feedback that we need to keep us well adjusted.

Companies rarely jump straight from a traditional appraisal scheme to 360° feedback. Usually they experiment with a survey of the direct reports of a manager – called in the trade a 180° feedback survey. Most frequently the survey is part of a management development course.

If this were you, you would select one of the feedback questionnaires on the market, or design your own, distribute it to your direct reports and ask them to complete it. They would then send it anonymously to an outside agent for processing. The aggregated results would be fed back to you as part of the management development course and would provide the structure for the skills

John W. Hunt Advises



training on that course. From 180° the surveys might be extended from your direct reports to include bosses and peers. So, in hierarchical terms, a complete circle of people – boss, peer, and subordinate, hence 360° – is surveyed anonymously. You would also complete the survey as a self-assessment to compare your results with those of the others.

One financial institution will probably never touch 360° feedback again. The outcome was shattering

When the external consultant or business school has processed the data they are likely to compare your results with those of much larger samples of managers, in your industry, in the country, and so on. Only the aggregated results are fed back to you, so no one individual's responses are identifiable.

Some surveys use only ranked questions such as "how effective is this manager in building teams?" In answer, you select a point on a scale from "very effective" to "very ineffective". Others use a combination of ranked questions and of text questions in which respondents write, in their own words, responses to specific questions – for example, "how could this manager make your department more effective?"

Why do I say feedback like this is potentially lethal? There have been numerous examples where the trust that is essential to the success of this process has been violated. For example, managers who do not like their feedback conduct an inquiry by asking respondents to indicate which were their responses. If this happens, it is essential that the person handling the survey becomes involved immediately, confronts the manager and puts out a potential bush fire. Otherwise, the process of introducing a more open feedback of opinion can be set back for years.

I know of one financial institution that will probably never touch 360° feedback again after a consultant sold the top group the idea. His method was to interview the manager and each of his direct reports to find what they liked and disliked about each other. He then assembled that manager and his/her direct reports in one room and fed back verbatim what each had said about the other. The outcome was shattering.

I am often asked whether 360° feedback should be used to determine people's pay. More and more organisations are measuring the performance of individuals and groups against predetermined criteria. One obvious criterion for assessing managers should be managerial competence. The 360° degree survey could, it is argued, be used to provide measures of this competence.

But this simple logic breaks down

when objectives become muddled. Most 360° feedback is intended for personal development. Extending that objective to include an annual assessment of managerial competence as a basis for reward is risky. Managers will begin to manipulate the process by selecting only those people who will give them good results. We have even seen cases where it was clear that the managers had filled in all the questionnaires themselves.

A simple, short survey, used to establish a manager's "threshold" level of skills, can be built into the performance appraisal review to provide data for an annual assessment and for establishing rewards levels.

But anything more sophisticated and intended genuinely to help managers develop themselves should not be used for performance-related pay in this way, at least until the people involved are familiar with the process and trust has developed.

You are clearly worried that your managers might be demotivated by negative comments. It is true that people tend to remember the negative and ignore the positive feedback. But the fact is that in the 15 years that we have been using 360° feedback the vast majority of feedback on managers is positive.

The reason for this is partly because total failures as managers are usually eliminated earlier in their careers and partly because respondents are revealing a great deal about themselves: who would want to be seen to be working for a gorilla indefinitely?

John W. Hunt is Professor of Organisational Behaviour at London Business School and a consultant to private and public sector clients. Please send suggestions for topics to be covered in this column to Diane Summers, Management Page Editor, fax 0171 873 3950; e-mail diane.summers@ft.com

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MARKETING AND MEDIA

Blue-eyed marketing boy

Alice Rawsthorn explains how rebranding helped Texas gain a wider audience for its music

If anyone in the music business had been asked a year ago to predict the best-selling bands of 1997, they would doubtless have said Oasis, U2, the Prodigy and Spice Girls. Texas would not have figured.

A Glaswegian band formed in the late 1980s, Texas had an instant hit with *Southside*, their 1989 debut album, but mustered modest sales of the two follow-ups. Disillusioned, the band took a few years off before recording what threatened to be another commercial flop.

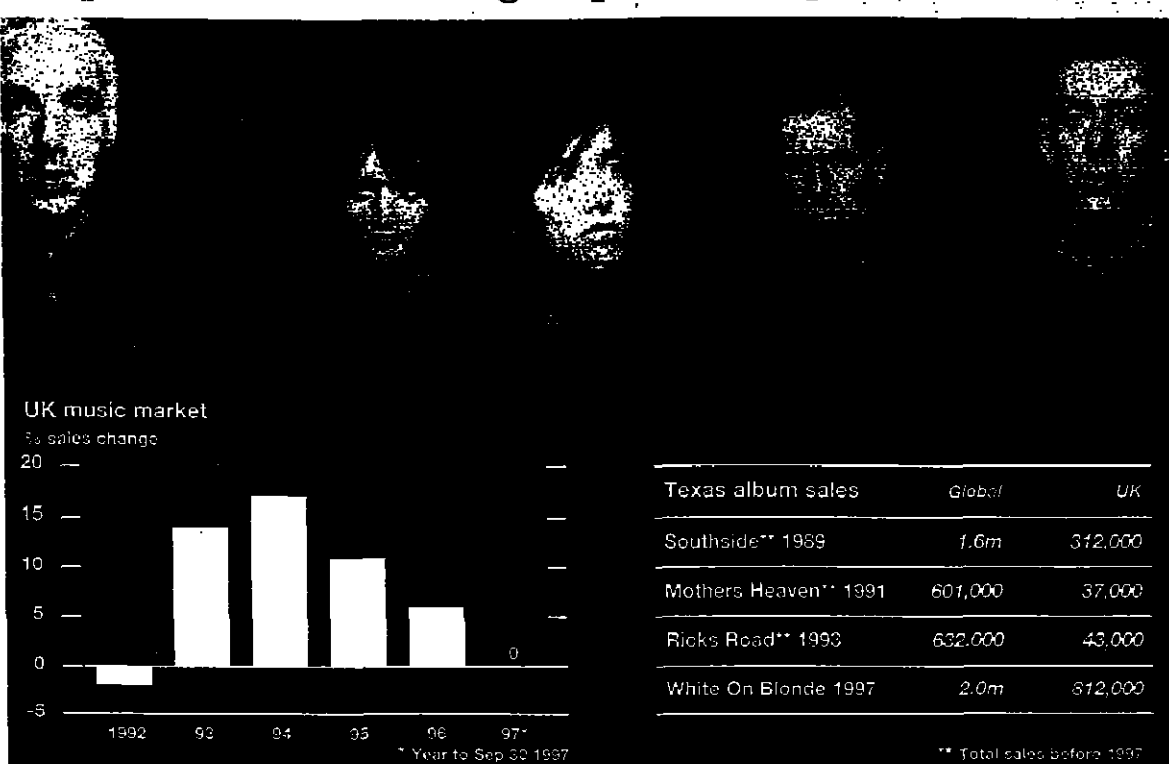
Instead, *White On Blonde* has sold 2m copies in Europe since its release in February and spawned a string of hit singles, including *Pui Your Arms Around Me*, the smoggy anthem for this year's Christmas office parties. Shazam! Spiteri, the lead singer, has been splashed across countless magazine covers. Texas is among the nominees for 1997's music awards, and their comeback is regarded as a marketing coup. How did they do it?

"Because of the music," says Howard Berman, managing director of Mercury Records (UK), the band's label. "It's all very well for us to sit here saying how clever we were, but *White On Blonde* has sold because it's a great album."

If *White On Blonde* had been weak, it is inconceivable that Mercury could have persuaded 2m people to buy it. But when a troubled band produces a strong album, there is always a risk of failure because no one has a chance to hear it - which is why marketing can make a difference.

When U2 prepared to release *Pop* this spring, and Oasis launched *Be Here Now*, they were guaranteed press profiles, reviews and extensive airplay, as were critical darlings like the Chemical Brothers and Radiohead.

Texas had none of these advantages. *Southside* had sold 1.6m copies worldwide, buoyed by the success of its first single, *I Don't Want A Lover*. None of the later singles did as well, and the next



two albums - 1991's *Mothers Heaven* and 1993's *Ricks Road* - each sold 600,000.

Sales were particularly poor in the UK, because Texas had failed to establish a loyal fan base in its home market. And although the albums received reasonable reviews, the band's catchy mix of pop, soul and rock was unfashionably accessible for the critics' taste.

"Texas had all the danger signs of a band on a downward spiral," says Mr Berman. "Everyone was aware that if this album didn't work, they didn't really have a future."

He felt more confident in early 1996, when the band finished the first few tracks from *White On Blonde*, including *Say What You Want*, which was to be the first single. Originally, Mercury planned to release *White On Blonde* in August 1996, just before the scores of albums are rushed out for the fourth quarter, which is the busiest period of the music year and accounts for

40 per cent of annual sales. Superstars generally bring out albums in early autumn to make the most of the Christmas market. U2 had planned to launch *Pop* then, but postponed its release until spring for musical reasons and has probably forfeited sales as a result. However, Mercury was concerned that Texas would find it hard to command the attention of journalists, disc jockeys and record retailers at such a competitive time.

The label was under pressure to strengthen its autumn schedule from PolyGram, its parent company, which had promised late 1996 albums, including *Pop*. Despite that, Mercury decided to hold *White On Blonde* until early February, a slack sales period when few albums are released and the market is less crowded.

The delay gave Texas time to finesse its promotional material, such as videos and

photographs. For the first three albums, the five band members had received equal prominence, but this time they decided to concentrate on Ms Spiteri, the only woman. "It was a collective decision," recalls Rab Andrews, their manager. "There's no real extrovert in the band, and the guys didn't have a problem."

Ms Spiteri, whose boyfriend, Ashley Heath, is a senior editor of *The Face* magazine, asked fashion photographer Juergen Teller to shoot the album and single covers. He asked Lee Swillingham and Stuart Spelling, both of whom work at *The Face*, to art direct his photographs like a magazine fashion session.

Mercury also used the delay to reintroduce Texas to journalists and record retailers at five "showcases" in different British cities where the band played their new songs. "Let's just say you've got to be very confident to let any artist do showcases," says Mr Berman. "But we knew Texas

were great live, and that they could carry it off."

The showcases were well attended, and ensured that *Say What You Want* got plenty of airplay when released to radio in early December. "We chose that time because there's a lull when the Christmas hits have been out for a couple of weeks and the stations are getting tired of them," says Mr Berman.

Until then, Savage & Best, the public relations consultancy hired to promote the album, had little luck in persuading newspapers and magazines to run articles on Texas. Similarly, Mercury's sales team was finding it hard to interest retailers in the album.

Retailers became more enthusiastic when *Say What You Want* climbed the radio airplay chart, and then became a Top 10 single. "We were literally getting more orders every day," says Mr Berman. In early February, when *White On Blonde* went on sale, it entered the chart at number one.

Winston Fletcher
It's creative - but will it sell?

Measuring creativity in advertising can be difficult

Are Dixons' advertisements better than Levi's? Ads for Dixons, the UK electronics retailer, are traditional, crowded, seemingly messy retail spaces in humdrum black and white print. Levi's commercials are imaginative award-winning filmlets, with great sound and subtle colour. How can I be so philistine as to suggest they are comparable?

But surely aesthetics are less important than sales results in advertising. The protagonists of creativity point to prize-winning creative campaigns that have, in sales terms, done the business (Levi's, for example). The critics point to an equal number of competent but uninspired campaigns that have likewise done the business (Dixons, for example). And the cynics throw in a host of famously creative efforts that bombed in the marketplace. (No names, no lawsuits.)

One could argue that it must be possible, with modern computer power and econometrics, to correlate creativity and results. But it is difficult in advertising, as in other creative areas, to achieve agreement on what is creative. Creativity isn't the same as style, wit or attractiveness, though any of these may be important components in a creative campaign. The closest synonym for creativity is originality. And deciding whether or not a particular advertisement is original demands a considerable knowledge of, and feeling for, past advertising. It is rarely that difficult for most people to agree about the *outstandingly* creative campaigns, but it is difficult to find agreement on modestly creative work which, of necessity, consti-

tutes most advertising. If the definition of creativity is uncertain, the definition of "effective" can be more nebulous still. Advertising results, like the results of every kind of financial investment, come in shades of grey.

Every advertisement has some effect, but to produce a linear chart, which even approximately relates greater creativity with greater sales, it would be necessary to quantify the results with precision and to isolate the creativity from the other factors such as timing and activity by rivals.

But that does not mean creativity has no value. There is copious evidence to show that consumers generally recognise and appreciate creative and original advertisements and dislike boring and unoriginal ones. But the content and creativity of the advertising must be relevant to the product: consumers quickly spot and condemn irrelevant creativity that has been shoe-horned in.

There is another, less directly commercial reason for producing advertising that is creative. Advertisements, like most human artefacts, have both form and function. Just as chairs have to be comfortable, advertisements have to sell goods. It would be ridiculous to claim that all comfortable chairs are beautiful. Many exceptionally comfortable chairs are hideous. And some beautiful chairs are uncomfortable. But the best chairs are both comfortable and beautiful. The same is true of advertisements. Uncreative ads can work, creative ads can fail. The best advertisements are creative ads that work. So I prefer Levi's advertising but that doesn't mean that Dixons' ads don't sell.

The author is chairman of Bozell UK Group.

Big boys missing the Point

Fledgling internet news service looks set for rich pickings

David Dorman's recent decision to leave his lofty position as number two at SBC, a telecommunications company with \$26bn (£15bn) in revenues, to head PointCast, a fledgling internet news service, has raised some eyebrows. But Mr Dorman is convinced that PointCast, which he joined in October, is well positioned to take advantage of the internet's growth what he calls "one of the biggest business opportunities of the century...". The television and newspaper industries got \$35bn each in advertising revenue last year. Even if the internet got just a fraction of that business, the potential would be enormous.

According to Forrester Research, which tracks the internet, the world wide web garnered about \$26bn in advertising in the US last year.

Next year, this is expected nearly to double. And by 2000, says the investment bank Morgan Stanley, there will be 300m personal computers in the US, more than half connected to the internet. "That means we'll have 148m

potential customers out there within the next three years," says Mr Dorman, compared with the 1m viewers PointCast now reaches.

While PointCast is little more than a start-up, it has attracted attention for its novel approach to news and advertising on the internet. Its news service appears automatically when computers move into "screen saver", an energy-conserving mode that kicks in when the machine has been idle for more than a few minutes. The viewer is fed a mix of news flashes and advertising, in a quasi-television fashion.

Clicking on an advertisement transfers viewers to a web site offering additional information, often allowing the viewer to make a purchase. "The formula has a tremendous advantage over television, because you can squeeze the old sales cycle of awareness, then consideration, then sale, down to a few minutes," says Mr Dorman. "It's a cycle that once took weeks or months." PointCast subscribers are also given the option of tailoring their news feed. Mr Dorman plans to take this service

even further, toward what he calls "mass customisation".

A new PointCast service will tell viewers the value of their personal stock investment portfolio using real-time prices. Subscribers can also dictate the industries, geographic regions and hobbies they most want to follow.

Outside content producers furnish most of the information. Deals have been signed with CNN, the Wall Street Journal and the New York Times. Personalised news services are often criticised for over-filtering the news, with readers complaining that they cannot know in advance which stories they will be interested in reading.

"We can always include the most important pieces in the headlines, regardless of the subscriber's profile," says Mr Dorman. "But let's face it: if you live in San Francisco, you probably won't be too interested in the weather forecast for Montreal. Picking out the most personally relevant bits of information is a huge service to readers."

Victoria Griffith

Tim Jackson • On the Web

Top players in a minor league



It is a consequence of the continuing presence of big business on the internet that marketing across the Web is splitting into two distinct markets.

In the major league, online services and search engines like AOL and Yahoo sign long-term, multi-million-dollar deals with prominent electronic commerce companies like Amazon.

In the minor leagues, tens of thousands of little businesses buy in banner ads at a fixed price per thousand impressions, or simply exchange links with other web sites on a reciprocal basis. Dozens of businesses have been set up to add liquidity to this minor-league market. Among them, two prominent players are DoubleClick, which resells ads on behalf of thousands of web sites, and Link Exchange, which operates a centralized barter system allowing site owners to place ads on other sites in return for placing ads on their own.

Tomorrow a new service called ClickTrade will enter the market. Offered by the company behind Submit It!, which markets an automatic search-engine submission service, ClickTrade incorporates two important innovations.

First, it allows links from one site to another not only through banner ads but also through buttons and plain text. That makes commercial sense because of the weight of data showing that web users pay more attention to standard links than banners.

Second, ClickTrade is based on "clickthroughs", not "impressions". The ClickTrade advertiser pays only when a user clicks on the link. The system is simple to operate. Both advertisers and "link partners", as the company calls web sites that take money for forwarding web users to other sites, can sign up instantly over the web. Advertisers post a price that they are willing to pay per click, and link partners look at the different prices offered by different advertisers before deciding whom to link to.

The result is a transparent

and much more efficient market.

Bill Younker, CEO of Submit It!, says the going rate per click is likely to be about 30 US cents, 15 times more than the standard cost per 1,000 impressions. This reflects the fact that only a small percentage of the people who see a banner ad actually click through to the site. In order not to alienate the sites that trade links on a non-financial basis, ClickTrade also allows advertisers to offer zero cents - meaning that they are willing to barter clickthroughs with other sites, but do not want to make any net payments.

Advertisers pay for their clickthroughs in two ways: either from the credit balances they have accumulated by forwarding users to other sites, or by credit card over the Web. The difficult bit is how to compensate link partners. ClickTrade offers settlement by US dollar cheque, with monthly accounting and payment on day 15 of the succeeding month. That may be acceptable to US sites, but it is unlikely to work with link partners outside the US.

ClickTrade's business model is straightforward. It charges a commission of 30 per cent of whatever the link partner receives - so a site offering 30 cents per clickthrough would have an extra 9 cents per click deducted from its balance by the site operator itself.

Younker and his colleagues have plenty more work to do before their system works smoothly. At present, their link partners face the risk that they won't receive settlement for customers they forward if the advertiser's credit balance has fallen to zero. Conversely, advertisers have no way to limit the number of clickthroughs they are offering to buy.

Younker says Submit It! is working on an alerting system that will tell members of the scheme when new members come on line, and also alert link partners when an advertiser's balance reaches nil. But many small business owners want a quiet life. Having to update links on their sites on a daily basis to account for offers placed and withdrawn may make the game not worth the candle. tim.jackson@gobox.com

FTid - The Internet Directory

The following companies want you to know that you can find out more about them by simply looking them up on the Internet Directory

All of these can be accessed via hyperlink directly from the Financial Times at <http://www.ft.com>

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BUSINESS EDUCATION

Not the best place to start

Jens Tartler charts the move to revive entrepreneurship in Germany's business schools

Germany, burdened with 4.5m unemployed, desperately needs new jobs and new businesses. But ironically, in the country which has always been proud of its "Mittelstand" - small and medium-sized, often family-owned companies - there is a severe shortage of entrepreneurs.

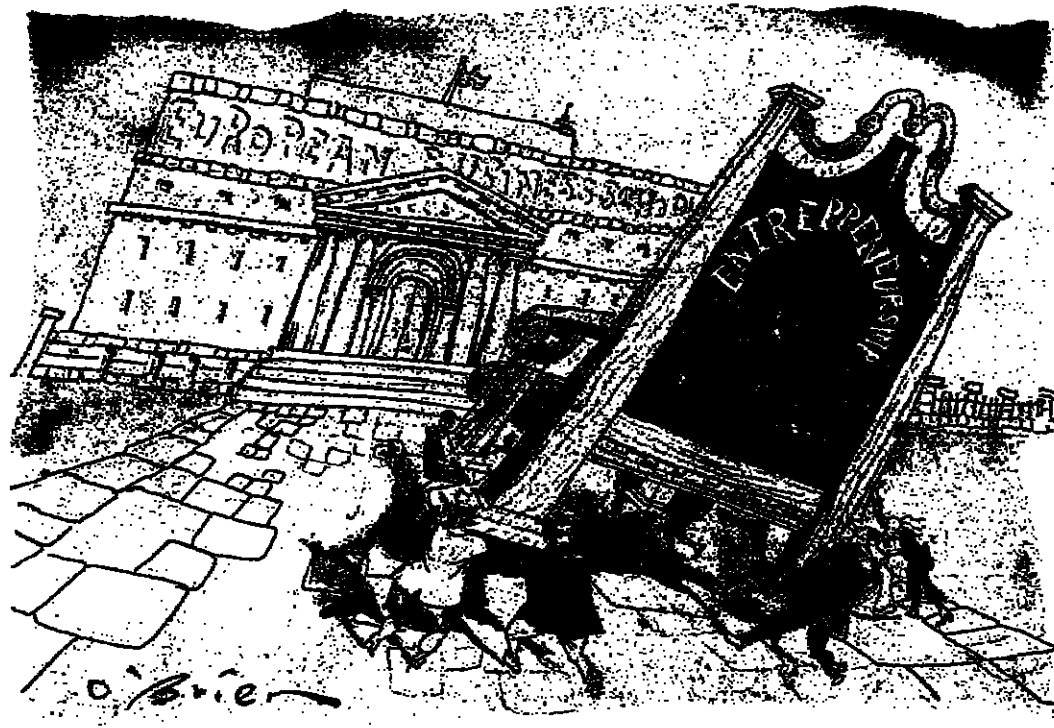
Today only nine per cent of the German workforce is self-employed: 20 years ago every fifth person was running his or her own business.

Moreover, half the graduates from Germany's universities want a job in the public sector, and only 10 per cent want to start their own business. Claudia Sturm, who runs a building company near Heidelberg, complains: "Studying business administration in Germany prepares you for a job with a multinational but not for starting your own company."

At German universities, there has not been one single chair in entrepreneurship, so far. This will soon change.

At the private-run European Business School (ebs), in Oestrich-Winkel near Frankfurt, students can now choose entrepreneurship as a special course. Helmut Klandt, who is well-known for his work in this area even among academics in the US, is the first German professor in entrepreneurship and has moved from the university of Dortmund to take up the position at ebs.

Jacob de Smits, the Dutch rector (or dean) of ebs, holds that the lectures in entrepreneurship will reflect the everyday problems of starting a business. The programme will include case studies,



developing a business plan, managing finance and acquiring venture capital and launching marketing campaigns on a low budget.

Additionally, academics are setting up research projects in the area, says Mr de Smits: "We are interested in fast-growing companies like Virgin or the Body Shop."

At the state-run universities in Cologne and Mannheim, assistant professors are now preparing the foundations for chairs in entrepreneurship. Other universities set to

follow suit are Humboldt university in the eastern part of Berlin, Dresden and Magdeburg.

But the numbers are still small. In the US 370 universities are teaching entrepreneurship and in the UK Aberdeen, Durham, Edinburgh, Glasgow and Warwick are just a few of the schools which specialise in the subject. In London Sue Birley is professor of entrepreneurship at the Management School at Imperial College and London Business School is aiming

to fund such a chair next year.

To finance the schemes at the German universities there is a start-up fund provided by Deutsche Ausgleichsbank, the federal government bank which is more used to supporting start-up businesses. Once those funds are exhausted universities will have to shift resources from other departments or raise funds from sponsors to finance the new chairs.

A good model could be the privately-run university at Witten-

Herdecke, Northrhine-Westfalia, which has established an institute with three chairs for research on family businesses. The institute is funded by Deutsche Bank.

Eckart von Reden, chairman of Deutsche Ausgleichsbank, has a more fundamental aim. "We want to draw the attention of business and politics to entrepreneurship, because more and more people have to be self-employed, especially in the service sector. In a globalised economy, starting your own business should become an example to follow for the younger generation."

But in Germany it is difficult. Even Bill Gates, it is said, would have failed to overcome all the obstacles Germany imposes on young entrepreneurs.

First of all, he would not have been allowed to do his business in a garage, because there are strict rules on what kind of activities are permitted in which areas of cities. Additionally, German bureaucrats set high standards for the technical requirements of buildings and offices as well as for, say, the required number of toilets.

Young entrepreneur Ms Sturm points out: "Last week I had a man from the building authority in my backyard. He checked whether I have got at least seven meters space for cars to turn." When Ms Sturm moved her business she had to wait a full year for permission to set up a new building.

Ralf Mahron, a young entrepreneur from Ludwigshafen, had to wait as long to get his company "Far Eastern Limited" registered. The chamber of industry and commerce did not want to accept the "exotic name".

NEWS FROM CAMPUS

How to course for can-do types

Entrepreneurs are often too busy making things happen to take heed of the nitty-gritty of running a business.

So the Richard Ivey school of business at the University of Western Ontario, in Canada, is running an 11-week programme to teach budding entrepreneurs some relevant skills, such as how to build a management team, develop financial strategies and manage cash flow.

FastTrac II culminates in the development of a viable personalised business plan. The next two programmes will both be held in February 1998, one in London, Ontario, the other in Mississauga. Ivey is also running a three-day programme on the leadership skills needed by executives to run high-growth companies. *Leading Entrepreneurial Organisations* will run in April in London, Ontario. Ivey: www.ivey.uwo.ca

Madrid forum for business

Spain's business leaders have been given a new forum in Madrid at which to discuss business issues. Up to 100 of them will be invited to join the Business Leadership Forum which has been set up by the Instituto de Empresa.

Regular meetings will be held in Madrid with a succession of speakers. Paul Krugman, professor of economics at the Massachusetts Institute of Technology will be the speaker in January. *IE E-Mail: Santiago.Irigoin@ie.ucom.es*

Honour for BA chief

Sir Colin Marshall, chairman of British Airways and chairman of the UK's Confederation of British Industry, received an honorary doctorate at Lancaster university's degree congregation last week.

The award is partly in recognition of BA's long-standing collaboration with the management school at Lancaster. *Lancaster: www.lancaster.ac.uk/users/manschool*

Tell tales out of school

Did you have luxury five-star accommodation or was it a camp bed in a cupboard?

Was the food fit for kings or only fit for animal fodder?

Let us know exactly what you feel about the food and accommodation you experienced - or are still enjoying - at your business school. We will be publishing the best responses.

Foulston first off the grid

Manchester business school is launching its next series of Vital Topics lectures in January with a talk by Nicola Foulston, chief executive of Brands Hatch Leisure, on the need for change in the leisure industry.

The lecture is the first of seven to be run during the first half of 1998. Other speakers will include Eddie George, governor of the Bank of England, Sir Ronald Hampel, chairman of ICI and the committee on corporate governance and John Monks, general secretary of the TUC. *MBS for UK: (0) 161275 5862*

Information for News from Campus should be sent to Della Bradshaw, FT, Number One Southwark Bridge, London SE1 9HL. Tel: 44 171 873 4673 Fax: 44 171 873 3950

LBS acquires an American accent



Coming home: John Quelch at the LBS

With a strong US accent and an employment record which speaks only of US business schools, John Quelch is not the typical British academic. But in six months he will return to his home town to take over as principal at the London business school.

As head of the marketing unit at Harvard business school, Prof Quelch specialises in international marketing and was one of the first to introduce ethics into discussions on the subject. He also produced one of the first electronic case studies, on marketing at Intel,

while the rest of the Harvard faculty were still wrestling with paper and ink.

At LBS he has set himself three priorities: motivating the faculty and staff; motivating the alumni; and fund-raising.

Motivating the staff could prove the most difficult. Prof Quelch had to beat three internal LBS candidates: David Currie (Lord Currie of Marylebone) and the two deputy principals, Michael Earl and Tom Robertson. "It would be wonderful if all three could stay fully committed," he comments.

Prof Quelch will have to work closely with Prof Earl, who has volunteered to be acting principal until he arrives in July. The newcomer also knows Prof Robertson, with whom he worked in the US. The alumni will be a central plank for the latest £20m fund-raising effort at LBS. "No business school in north America that operates at a level of excellence does so without the support of its alumni," says Prof Quelch.

He is bullish about LBS prospects: "I think the institution is poised to enter the arena of the

highest-rated international business schools."

Prof Quelch is reluctant to discuss changes he plans to make, although promotion of the school's international research is high on his list. As to the US-modelled two-year MBA course Prof Quelch has no plans for change. "The 21-month MBA programme does have the advantage of delivering a quality of graduate that it is difficult for a 12-month programme to match," he concludes.

Della Bradshaw

BUSINESS TRAVEL

Travel Update - Roger Bray

E-mail enterprise

Staff at Siemens Nixdorf, the German manufacturing and information technology group, have begun making their own business travel bookings by e-mail. If they try to infringe company policy an alert is passed immediately to their travel manager, Michael Bussmann, the firm's information systems sales manager, expects they will arrange most simple trips themselves - such as domestic flights - but that the majority will still need expert help with the most complex itineraries. He

believes the development can halve the average DM35 cost of processing bookings. Employees can check flight or hotel availability from their computers via a reservation system link. Bookings are routed to one of seven travel agents, depending on where they work. The idea is being tested on 5,000 staff at six locations but could eventually be used by more than 300,000.

Air delays

Air travel delays continue to worsen. In the

July-September quarter, 21.3 per cent of flights were more than 15 minutes late, up from 18.4 per cent in the same period last year.

About two-thirds of hold-ups were blamed on air traffic congestion or airport problems. The figures, which come from the Association of European Airlines, hide an even gloomier picture. They relate only to the time the aircraft leaves its stand and do not include any delays between there and take-off. The AEA represents most of the region's main carriers. September was the fifth consecutive month in which their average punctuality deteriorated. It says this

year's punctuality record now looks likely to be the poorest since 1990.

Conference call

Boston, which has been losing lucrative convention business for want of capacity, is to get a huge US\$700m conference and exhibition complex. Scheduled to open in 2002, it will have total space for 12,000 delegates - three times that of the city's largest existing facility, the Hynes Convention Centre. It will be built close to the waterfront and the mouth of the new tunnel to Logan Airport. A small complex, with capacity for 100 people,

has just opened at the Fish Pier on the harbour. But a spokesman for the Greater Boston Convention and Visitors Bureau says: "We have lost every major conference for the last five years because they have outgrown our ability to handle them."

Boxing lesson

Any thieves contemplating a pilfering expedition to Beijing's Radisson SAS hotel had better know how to dance like butterflies and sting like bees. Anxious to tighten security and safety, the management recently called in soldiers from the capital's Fire Control

Bureau to instruct them in Chinese boxing.

Tel Aviv hotel

Tel Aviv is to get a hotel targeted at long-stay business visitors. Part of the Israel group, which is well established in the Israeli Red Sea resort of Eilat, it will comprise 90 one-bedroom suites with kitchenettes. There will be no restaurant, but guests will be able to order breakfast and use a grocery shopping service. The hotel, to open in February, will occupy the top 16 floors of a building two blocks from the beach and incorporate a business centre.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Hong Kong	18	15	16	15	15
Frankfurt	5	6	5	5	5
New York	10	10	10	10	10
L. Angeles	18	18	21	20	21
Paris	7	9	10	10	8

CLUB CLASS

Gillian Upton on airlines' response to the main requirement of executives - sleep

My kingdom for an 'air' bed

Forget fancy food, personal computer power, outgoing telephone calls, gambling, shopping and endless inflight films: all a first-class traveller really wants is a good night's sleep.

Executives filling business-class cabins these days are hankering after the added privacy and comfort of first class, and the renewed demand has triggered a rash of development.

This week Lufthansa is announcing its new-look first class. Next spring Qantas will unveil new business and first cabins and before the end of 1998 United will join the fray. Last month Japan Airlines introduced its new first-class service. Common to all is somewhere to sleep and added privacy.

Customer demand led JAL to bring in its Sky Sleeper, a seat that reclines fully to become a bed with down-filled duvet and pillow. The cabin is still configured with two seats alongside each other, but a 38-inch-high partition gives privacy. By the end of this month Sky Sleeper will be available on routes between Europe and Tokyo.

Lufthansa's relaunch is similar to that of JAL. The German flag carrier will offer a fully reclining seat configured in pairs with a partition between them. Two aircraft are already flying with the new seats.

Over the next 12 months United will also install a bed-style seat in first class. Already in test, it will be fitted in Uni-

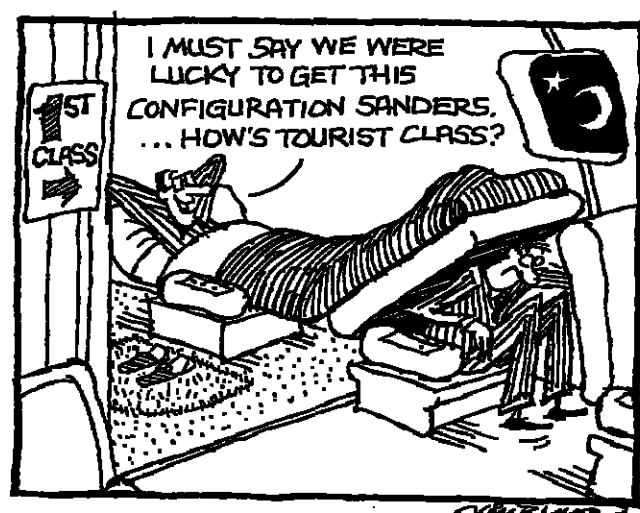
ed's fleet of 777s that fly the UK-US routes. "We want to do something above and beyond what everyone is doing at the moment," the airline says.

Qantas is in no doubt about how it sees the future of its premium cabin. "We want a product that is complementary to our alliance partners (British Airways) but not identical," says Mark Henry, corporate sales manager for UK and Ireland at the Australian airline.

Together with Air France, BA was the first to bring back beds to first class 18 months ago. It introduced individual booths slightly angled towards the windows. In the centre of the cabin are two rows of two seats, with partitions. They have been likened to a coffin shape and hence the cabin is better known as Coffin Class in the industry. BA gives out sleep suits and duvets. At the same time Air France brought in L'Espace 180, seats that fully recline with a sliding partition for privacy. The cabin has seats alongside each other; a duvet, pillows and sleep suit are part of the package.

Qantas will almost certainly go for sleeper seats with some type of partition, and more individual seats rather than pairs of seats. A refit begins next year and the airline hopes customers will be able to sample its new first class by April. Last month it introduced a dedicated first class cabin crew.

Most of the airlines have complemented the new seats with more flexible eating arrange-



ments. Customers can choose to eat in the departure lounge before boarding or "graze" in-flight. This trend has not stopped airlines competing for leading chefs to add something extra. Qantas, for example, has wooed top Australian chef Neil Perry to create an *a la carte* menu. Air New Zealand is using Peter Gordon from London restaurant The Sugar Club.

The new top cabins aim to increase the quality differential between first and business class. As business class cabins were upgraded in the early 1990s, many customers found it questionable to pay almost twice as much for a first-class ticket for which they got slightly more leg room and, perhaps, a better meal.

Sleep, though, is a precious commodity for which many executives are apparently prepared to pay significantly extra. A London-New York return on BA in business class, for instance, costs £2,814, while a first-class ticket is £4,800.

For the airline, making first-class travel more attractive makes sense. "If an airline can get a full cabin in first [class] they will make a third of the total revenue in economy [class]," says Chris Tarry, transport analyst with Dresner Kleinwort Benson. (This equation assumes discounted economy-class fares, full fare first-class fares and 60 per cent and 80 per cent load factor respectively.) But the fortunes of first class

have been volatile, prompting some airlines to give up on the early class altogether. In the early 1990s the Gulf war and recession emptied first-class cabins, save for frequent flyer members of frequent flyer programmes. KLM, Sabena and Continental either scrapped first class entirely or combined it with their business class.

KLM has no plans to bring back first class. "We abolished it in 1993 and upgraded business [class] in April the following year," says KLM. "We've had to add more seats to cope with demand but our business class can be compared with some other airlines' first class. We don't have any plans to market a seat like a bed."

Similarly, Continental, which combined its two premium cabins into a BusinessFirst product in 1992, has no plans to return to a three-class airline.

Scandinavian airline SAS scrapped first class in the 1980s but has responded to market demand with the introduction of a few years ago of a EuroSleeper seat on long-haul routes. Charged at a \$300 (£179) premium one-way, there are six reclineable seats on each flight. They have to be booked in advance.

"When you're travelling long-haul all you want to do is get a good night's sleep," says Jeff Rebello, marketing manager of SAS. "Travellers don't want anything to eat. You have to question whether you actually see the value of paying all that extra money for first class."

On the rack over rooms

Companies risk big increases in business travel costs unless they negotiate new deals with hotel groups, according to the latest quarterly European Business Travel Index published by American Express.

As demand for rooms in many cities edges close to supply, corporate rates look certain to come under heavy pressure.

Travel managers should insist on a "last room availability clause" to ensure they continue to get agreed prices even when hotels have only a few beds left, advises Börge Ellgaard, Amex hotel relations vice-president for Europe. If they do not, they will face an increasing danger that discounted bookings will be rejected as it becomes easier to sell remaining rooms at, or close to, published "rack" rates.

Prices have soared in many countries, not least in North America, where the cost of staying in top quality hotels rose by just over one-fifth in the year to the end of September. Amex measures rates in Euros, so UK business travellers will have suffered less than their counterparts in countries whose currencies have been struggling.

Increases in some places have been so steep that not even those blessed with hard currency have been left unscathed. In the US there was no escape even for travellers trading down. North American tourist hotel rates rose by no less than 37 per cent. In central and south America, the

price of de luxe and first-class rooms rose 12 per cent and 14 per cent respectively, while in western Europe they increased 6 per cent and 5 per cent.

The 10 most expensive cities in the July-September quarter of this year - again expressed in Euros - were New York (232), Tel Aviv (220), Hong Kong (216), Moscow (213), Buenos Aires (206), London (204), Bombay (195), St Petersburg (194), Chicago (182) and Stockholm (184).

Though London's hotels were nearly 85 per cent full on average in the first nine months of this year - the highest occupancy in any leading European city - de luxe and first-class increases at 11 per cent and 8 per cent respectively look relatively modest when expressed in sterling. Convert those into Euros and the pound's strength adds nearly 20 per cent.

There is some relief from the gloom. The weakening of Asian currencies has cut costs for travellers. A drop in visitors to Hong Kong, following the handover to Chinese rule, has created a buyer's market there.

Prices in Munich, Berlin and Frankfurt have also fallen. They have even flattened in Bombay, but only after a 25 per cent rise in US dollar terms last winter. And the imposition of stiff new air travel taxes is already beginning to hit foreign tourism to the US, which could force hoteliers to offer more attractive deals.

Roger Bray

15250

ARTS

OPENINGS



LOS ANGELES
The new Gatty Center (above) will be formally inaugurated on Saturday. Situated in the foothills of the Santa Monica mountains, it more than doubles the gallery space of the original Melbo Villa. Heading the inaugural exhibitions will be a show of Greek and Roman antiquities, augmented by loans of ancient Indian, Peruvian and Chinese works from other museums. The Center is open to the public from December 16. Its projected final cost is \$1bn.

VIENNA
David Pountney's new production of Wagner's *Die Walküre* opens at the Staatsoper on Saturday. Zubin Mehta conducts. The cast includes Siegfried Jerusalem and Ann Murray.

NEW YORK
An exhibition honouring the late fashion designer Gianni Versace opens at the Metropolitan Museum of Art on Thursday. It ranges from Versace's classical trepanning to his 1992 "Bondage" collection and the Elizabeth Taylor safety-pin dress.

CARDIFF
David Alden's staging of Monteverdi's *L'incoronazione di Poppea*, first seen in March in the summer, comes to the Theatre on Thursday. Tickets

Alessandrini conducts a cast headed by Catrin Wyn Davies, Sally Burgess and Paul Nton. Welsh National Opera will take the production to cities in central and south-west England on its spring-1998 tour.



LONDON
On Sunday, Nina Simone (below) appears at the Barbican opposite Somalian exiles Waaberi and Greek singer Savina Yannatou. Prague has one of the best

homegrown jazz scenes of any European city. Made in Prague, which starts on Thursday at the Riverside Studios with pianist Karel Ruzicka, reveals the best of Czech jazz.

James Levine returns to London this week for the first of three concerts with the Philharmonia. On Friday at the Royal Festival Hall, he conducts a Brahms programme, including the Violin Concerto with Maxim Vengerov. On December 17, Fanny Fleming and Luciano Pavarotti join him for a performance of Verdi's *Requiem*, and on December 21 he conducts Mahler's Eighth Symphony at the Royal Albert Hall.

Deborah Warner bring their account of T.S. Eliot's *The Waste Land* to the Barbican Music Hall, £1 for its

London premiere. Julian Clary, icon of modern British camp, returns to the West End stage in *Special Delivery*, opening at the Vaudeville Theatre on Friday. Ian Richardson returns after many years to the London stage in the title role of Arthur Wing Pinero's vintage farce *The Magistrate*. The production, opening tomorrow at the Savoy Theatre, is directed by Nicholas

Broadbent. English National Ballet unveils a new staging of *The Nutcracker* by Derek Deane at the Coliseum. The season runs until January 10.

STAFFORD-UPON-AVON
The world premiere of Richard Nelson's play *Goodnight Children* opens at the RSC's The Other Place tomorrow. Gregory Doran's production of *The Merchant of Venice*, with Philip Voss as Shylock, opens at the Royal Shakespeare Theatre on Wednesday.

PARIS
A distinguished Kabuki troupe headed by two "National Treasures" will present this superb form of drama at the Châtelet theatre from Wednesday.

Unsettling image of a nation's soul

Frederick Stüdemann reviews 'Deutschlandbilder' in Berlin

Just as the correct frame can often be crucial for the proper display of a picture, so the location of an exhibition can be important to the way in which works of art are received by the public.

Such is the case with the exhibition *Deutschlandbilder*, or "pictures of Germany", which is being held in the Martin-Gropius-Bau, one of those family decorated, yet bulky, buildings which sprung up in Berlin at the end of the last century. Eight years ago, the building lay just on the western side of the Berlin Wall. Today it sits in the centre of a reunited city. All very appropriate for an exhibition carrying the subtitle, "art from a divided country".

Ekhart Gillen, one of the exhibition's curators, says the idea for the exhibition, which is the centrepiece of this year's *Berliner Festspiele*, dates back to the 1980s when he made several visits to artists in East Germany. "They said they weren't East German artists, but artists living in Germany." From there began a search for the "common thread" in visions of Germany held by those living either side of a dividing line, or from exile.

The result is a collection which, perhaps predictably, offers few celebratory images of Germany. The exhibition opens with the dark horrors of the 1930s and 1940s, as shown in pictures by, among others, Max Beckmann, Horst Strelper and Max Ernst. The decision to include works from this period before the formal division of Germany was taken because of the break caused by Hitler's ascent to power which prompted many artists into exile.

When the east-west division did set in after 1945, artists appeared not to notice as both "sides" voiced scepticism about the societies emerging around them. In some cases, such as with Konrad Klapheck's 1958 work *Der Wille zur Macht* ("The Will for Power"), west could be east and vice versa. In an almost clinical painting of an outsize



Max Beckmann's 'Self-portrait, 1940: by then he had fled Hitler's Germany

typewriter whose keys appear like columns of soldiers, Klapheck, a westerner, draws parallels between worlds of bureaucracy and the military.

Dealing with the past is one of the central themes in the exhibition. Easterner Werner Tübke's bitter-sweet paintings are full of almost joyous colour, yet deal in a simplistic way with the guilt of German officialdom. With his blurred pictures of typical family photographs from the Third Reich period, Gerhard Richter, a westerner, delves behind the net-curtain normality of western Germany to unearth skeletons.

Western artists predominate, and here visitors can expect to find many of the familiar names. Joseph Beuys is there with *Wirtschaftswerte* ("Economic values"), basic food-stuffs displayed across iron shelves intended to highlight the link between economics and culture. Anselm Kiefer's *Deutsches Geistesbild* ("Germany's spiritual heroes") is an aspheric use of mythological symbols to drive home a deeply unsettling image of a nation's soul.

In a cross-border collaborative piece, Immanuel Visits Y the German. The exhibition opens with the dark horrors of the 1930s and 1940s, as shown in pictures by, among others, Max Beckmann, Horst Strelper and Max Ernst. The decision to include works from this period before the formal division of Germany was taken because of the break caused by Hitler's ascent to power which prompted many artists into exile.

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Theatre/Alastair Macaulay

Hamlet stripped of philosophy

The seasons pass. You have enjoyed *Hamlet* much, and you have admired *Hamlet* cut by more than half. You have seen Sibley and Dowell dance it to Tchaikovsky, you have seen the Royal Danish Ballet dance it to Tippett, and at home you have recordings of Melba and Tetrazzini and Callas in the Mad Scene. Not to mention all the recordings and videos of Gielgud and Olivier and Branagh and many more. You have seen the play in filmstrips, doublets, and, and, and you have heard Fortinbras come on with ghetto-blasters. You have seen this *Hamlet* in sick-stained pyjamas, that *Hamlet* in dungarees, and another *Hamlet* take his clothes off. As for "To be or not to be", you remember how one *Hamlet* stood stock still, another fell over and picked himself up again during the opening line alone, and how a third began it seated cross-legged at a typewriter. You have liked *Hamlet* classical, iconoclastic, philosophical, witty, hysterical, or alienated. You are by no means *Hamletted* out - there are other theatrical works you have seen yet more often - but you are getting choosy.

Certainly you wonder what is up with those people who defend the Royal Shakespeare Company's current *Hamlet* as if it were any kind of big deal. It is a foolish affair: neither fish nor fowl. It is one of those "modern-dress" productions that fails to remind you of any modern dress you have ever seen in real life. It wanders between 1950 and 1990 in design, and its characters dance a mean fox-trot but nothing more up-to-date.

"The fair Ophelia" - whose hair-styles vary between mad, mid and mid, and whose hairstyles also run the gamut - looks a fright on her every appearance. The style is "naturalistic", but *Hamlet* and Claudius keep shouting in the way that only actors do, and the way Gertrude behaves varies between Rank Charm School (those sustained smiles) and Mrs Crumple ("Drowned, drowned" spoken in bell-like tones and with the tragic stare from hell).

This production at the Barbican, directed by Matthew Warchus, was new in Stratford-upon-Avon this summer: since when a few of its more ardent apologists have accused its harsher critics of being inflexible and of stuffy, misplaced purism. Purism? Bring back the sick-stained pyjamas or the ghetto-blasters, rather than



Alex Jennings in the title role

is all" that you realise he has come through no journey at all. He has many virtues, and has made several improvements since Stratford, but these are on the surface; he is a good actor who makes *Hamlet* a series of shallows.

The same goes for the whole show, and for most of the actors involved. If one could be fair, one would point out all the nice incidental points, all the clever decisions. But they don't add up. Who could believe that most of these characters have ever spent time with each other? Or believe in a Claudius (Paul Freeman) who would be better as the Player King? Or believe that Susannah York's wry smiles and oiled vocalisation (as Gertrude) belonged in anything real? This production sets out to be *Hamlet* without tears, but it works on neither *Hamlet's* terms nor its own.

At the Barbican Theatre, London EC2 (0171-638 8891).

INTERNATIONAL ARTS GUIDE

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Dialogues des Carmélites: by Poulenc. New production conducted by Yves Abel in a staging by Robert Carsen. Cast includes Joan Rodgers and Sheri Greenwald; Dec 10, 13

BERLIN

DANCE
Deutsche Oper
Tel: 49-30-34384-01
Deutsche Oper Ballet: Rossini, choreographed by Ronald Hynd to music by J. Strauss; Dec 11

OPERA
Deutsche Oper
Tel: 49-30-34384-01
Die Zauberflöte: by Mozart. Staged by Günter Krämer, with sets and costumes by Andreas Reinhardt; Dec 9, 12
Hänsel und Gretel: by Humperdinck. Premiere

conducted by Olaf Herzold (Deo) Sebastian Lang-Lessing (Jan) in a staging by Andreas Homoki; Dec 13

BOLOGNA

OPERA
Teatro Comunale
Tel: 39-51-529 999
www.teatrocomunale.it
Turandot: by Puccini. Revival conducted by Daniele Gatti in a staging by Hugo de Ana; Dec 9, 11

CHICAGO

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
Amistad: world premiere of Anthony Davis's new work about the 19th century anti-slavery campaign. Dennis Russell Davies conducts a production by George C. Wolfe; Dec 8, 11

EDINBURGH

EXHIBITIONS
Scottish National Portrait Gallery
Tel: 44-131-624 6200
Portraits of Excellence: a series of photographs of distinguished academics at the University of Edinburgh, commissioned according to an 18th century University tradition; to Feb 1

FRANKFURT

EXHIBITIONS
Schirn Kunsthalle

Tel: 49-69-299 8820
Holy Russia: Icons and the Rise of Moscow 1400-1600. 50 rarely exhibited icons lent by Russian museums are the centrepiece of this exhibition, which also includes 16 manuscripts. The period was a crucial one, which marked the rise of Moscow as a principality ruled by powerful Tsars. Its architecture and art reflect this shift, and illustrate a remarkable synthesis of Renaissance ideas with traditional Byzantine forms. To Mar 1, after which the exhibition will travel to London

LONDON

EXHIBITIONS
Barbican Centre
Tel: 44-171-638 8891
● Don McCullin - Sleeping With Ghosts: major retrospective of work by the photo-journalist which spans his career from 1959 to the present. Includes prints drawn from the major stories he covered, and more recent still life and landscapes; to Dec 14
● James Ensor 1860-1949: more than 140 works by the Belgian expressionist. Includes early studies of Ostend, portraits of the artist's family and friends, and the carnival paintings for which he is best known; to Dec 14

Tate Gallery
Tel: 44-171-887 8000
The Turner Prize 1997: display of works by each of the nominees on this year's all-woman shortlist: Christine Borland, Angela

Bullock, Cornelia Parker and Gillian Weaving; to Jan 18

OPERA
Shaftesbury Theatre
Tel: 44-171-379 5399
The Royal Opera: Paul Bunyan, by Britten. New production staged by Francesca Zambello and conducted by Richard Hickox; Dec 10, 11, 13

MADRID

EXHIBITIONS
Fundació "la Caixa"
Tel: 34-1-495 4833
Joaquín Mir, 1873-1940: A Life's Journey. Retrospective of around 140 works by the landscape painter; to Jan 25

Museo Nacional Centro de Arte Reina Sofia
Tel: 34-1-467 5062
Fernand Léger (1881-1955): retrospective comprising some 220 paintings and drawings by the early modernist. The exhibition will emphasise the artist's relationship with architects, as well as his work for the ballet and cinema. Previously seen in Paris, the exhibition will transfer to New York; to Jan 12

MANCHESTER

CONCERT
Bridgewater Hall
Tel: 44-161-907 9000
Tosca: by Puccini. Concert performance given by the Hallé Orchestra and The European Opera in their first collaboration; Kent Nagano conducts; Dec 10, 11, 14

MILAN

OPERA
Teatro alla Scala
Tel: 39-2-887971
Macbeth: by Verdi. Conducted by Riccardo Muti in a staging by Graham Vick, with designs by Maria Bjornson. Casts vary; look out for Maria Guleghina and Roberto Alagna; Dec 10, 13

NEW YORK

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
● Don Giovanni: by Mozart. Production by Franco Zeffirelli; Dec 9, 13
● The Rake's Progress: by Stravinsky. New production by Jonathan Miller, conducted by James Levine. Cast includes Dawn Upshaw and Samuel Ramey; Dec 11
● Turandot: by Puccini. Revival of a staging by Franco Zeffirelli; Dec 10, 13

PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestra de Paris: conducted by Wolfgang Sawallisch in works by Beethoven. With piano soloist Radu Lupu, soprano Luba Orgonassova, mezzo-soprano Marianne Roehrlin, tenor Herbert Lippert, and bass René Pape. Choir led by Arthur Oldham; Dec 10, 11, 13

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
Der Rosenkavalier: by Strauss. New production conducted by Edo de Waart in a staging by Herbert Wernicke. Cast includes Renée Fleming, Susan Graham and Barbara Bonney; Dec 11

OPERA NATIONAL DE PARIS, PALAIS GARNIER

Tel: 33-1-43439696
The Merry Widow: by Franz Lehár. Armin Jordan conducts a new production directed by Jorge Lavelli, with sets by Antonio Lagarto; Dec 9, 11

THÉÂTRE DES CHAMPS ÉLYSÉES

Fidelio: by Beethoven. Production staged by Patrice Chaurier and Moshe Laiser, with the Orchestre des Champs-Élysées and the Choir of the Welsh National Opera. Conducted by Louis Langrée; Dec 9, 12

KUNSTHISTORISCHES MUSEUM

Tel: 43-1-525240
Pieter Brueghel and Jan Gough: comprehensive survey of the art of the two sons of Pieter Brueghel the Elder. Includes around 130 paintings and 20 works on paper by Jan Brueghel the Elder (1568-1625) and his less celebrated brother Pieter Brueghel the Younger (1564-1637/8). The exhibition also includes a dozen important works by their father, enabling visitors to trace his influence upon the technique of his sons; to Apr 14

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17.30: *Financial Times Business Tonight*

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08.30: *Squawk Box*
10.00: *European Money Wheel*
18.00: *Financial Times Business Tonight*

COMMENT & ANALYSIS



Philip Stephens

Hints and signals

Tony Blair and the Northern Ireland secretary are acting on the assumption there is a chance of peace in Ulster

The intriguing question arising from Tony Blair's meeting with Gerry Adams this week is just which of them is taking the bigger risk. Some say the British prime minister has been duped by the leader of Irish republicanism. Others venture Mr Adams is tempting a nastier fate. The IRA has a habit of being unforgiving of those who consort with the enemy.

Mr Adams will be the first republican leader to cross the threshold of 10 Downing Street since Michael Collins in 1921. Collins was there to make peace with David Lloyd George at the end of the Anglo-Irish war. The hero of Ireland's struggle for independence was outwitted by his host, signing a treaty which, in its creation of the Irish Free State, entrenched the partition of Ireland.

Collins was aware of the perils. On his arrival back in Dublin his first words to Tom Cullen, his intelligence agent, were: "Tom, what are our fellows saying?" Cullen answered that what was good enough for Collins was good enough for republicanism. He was mistaken. Collins was branded a traitor by Eamon De Valera's anti-treaty forces. Within a year, Collins had been murdered in an ambush by his erstwhile followers.

Seventy-five years on, we do not know whether Mr Adams is serious in seeking a settlement in the all-party talks in Belfast. And, if he is, whether what is good enough for the president of Sinn Féin is good enough for his supporters.

We do know, though, that just as in 1921, the only deal on offer through negotiations falls far short of a united Ireland. Collins saw the Irish Free State as a "first step", offering republicans "the freedom to achieve freedom". Does Mr Adams intend to say the same, one wonders, of a new

constitutional settlement?

Mr Blair has no illusions about his visitors. There is not even the faintest pretence these days that Sinn Féin and the IRA are distinguishable, even though membership of the latter is technically illegal. When the BBC reported last week that Mr Adams and his sidekick, Martin McGuinness, were members of the IRA's Army Council, the official reaction was a shrug of the shoulders. The report told Mr Blair what he already knew. Mr Adams has blood on his hands. But then so do the loyalist leaders who have already been welcomed in 10 Downing Street.

As to Mr Adams' intentions, Mr Blair has made what John Major, his predecessor, once called a "working assumption" that the IRA's leadership is serious in its intent to find a political solution. The prime minister will tell you that there are signs, no more than that, that the Sinn Féin leadership does want to make the journey from violence to politics. There are hints too, he believes, that they are preparing the ground to present an eventual agreement at the talks as a "transition phase" on the road to a united Ireland.

Mo Mowlam, the Northern Ireland secretary, takes the same view. Many had

Mo Mowlam's

approach - as

gutsy as it is

rough-edged -

has flushed out

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from their

rhetorical bomb

shelters

doubts when she moved into the post after the May election. Ms Mowlam's preference for blunt speaking over diplomatic niceties seemed dangerously scornful of the subtleties of a conflict so steeped in tortured history. I think it is otherwise. An approach as gutsy as it is sometimes rough-edged has flushed out the protagonists from their rhetorical bomb shelters.

Ms Mowlam has little time for those who say that a return to terrorism by the IRA would leave her with large quantities of egg on her face. Maybe, she will retort, but to act on that assumption would be to turn failure into a self-fulfilling prophecy. Assume the reverse, and there is a chance that peace will become self-reinforcing.

And for all the recent well-publicised resignations from the IRA, the ceasefire seems more stable this time than at the comparable point in 1994. There is little evidence as yet of the targeting and surveillance operations that continued throughout the last ceasefire. As for the irredentists who have quit in protest at Mr Adams' strategy, they at least have not yet moved over to the hardline Continuity Army Council. The CAC's operations, along with those of the loyalist LVF, are the big obstacle to a faster relaxation of security in the province.

Some inside the British security forces are sceptical. The IRA retains a formidable capacity to strike both in Northern Ireland and on the British mainland. Mr Blair and Ms Mowlam probably would not know they intended to do so until after it had happened. As Mr Adams infamously declared during the first ceasefire: "The [IRA] haven't gone away, you know."

Mr Blair is prepared to take the risk. Once he had decided to treat Sinn Féin/IRA as serious negotiators,

he could hardly excuse himself from Mr Adams' handshake. And the Belfast talks have gone better than expected. The unsung hero is George Mitchell. The former US senator has given two years of his life to chairing the process. His patience is unrivalled.

True, the parties are only now beginning to confront the substantive issues that will shape any settlement. The elements, though, are familiar enough: recognition that the majority holds a veto over Northern Ireland's constitutional position; a devolved assembly in Belfast, safeguards for the nationalist minority; north-south structures to enhance co-operation; and a new framework for Anglo-Irish relations.

That David Trimble, the leader of the Ulster Unionists, is still at the negotiating table says something encouraging. One view says he is cynically guarding his flank against being blamed for a return to violence. Another says he sees a slim possibility of a deal. In that event, Mr Trimble, of course, would be a natural choice as Ulster's first prime minister since the early 1970s.

Herein, though, lies the core contradiction, the circle to be squared. Any settlement must persuade unionists that it modernises partition rather than destroys it. For Republicans, it must be susceptible to the interpretation that it is a step towards a united Ireland. Thus one side demands immovability, the other mobility. And Northern Ireland is a small place. With sufficient imagination, it is just possible to see how an agreement might not simultaneously in both directions. But Mr Adams has yet to be tested. The IRA ceasefire is a tactical convenience. We will know he has Collins' courage only when he asks: "What are our fellows saying?"

The International Monetary Fund's plans for a \$57bn bail-out of South Korea would require a huge transformation of the economy, perhaps by as much as those of east Europe after the fall of the Berlin Wall.

Just as East Germany was once considered the most advanced of the east European communist bloc countries, so Korea, the 11th largest economy in the world, was celebrated as the most robust of Asia's tiger economies. Its largest conglomerates, the *chaebol*, include household names such as Hyundai and Samsung. Yet the country's dirigiste economy, based on state directives to banks and industry, is no longer working.

"Korea is East Germany with modern machinery and US dollar-denominated debt," says David Hale, global strategist for the Zurich Group, the financial services company. "It's the last of the transitional economies to market capitalism."

A senior western diplomat in Seoul says: "Korea had grown too big for bureaucrats to allocate capital and pick industrial winners."

The collapse of several industrial groups this year threatened the stability of the banking sector and caused foreign bankers to curb lending. This raised the spectre of overseas loan defaults, as Korea's foreign exchange reserves dwindled to a dangerously low level.

The scope of the IMF reforms is wide. The plan is to free the financial sector from intrusive state control while forcing the *chaebol* to make investments based on earnings potential rather than market share.

By giving independence to the central bank, the IMF reformers hope to reduce the overweening influence of the finance ministry. A wider opening of the debt and equity markets to foreign investors is intended to stimulate competition and promote a much-needed emphasis on credit analysis.

And the planned closure of some financial institutions, and the merger of others, would liquidate at least \$50bn in bad loans and curb borrowing estimated by Standard & Poor's, the US credit rating agency, to be twice the gross domestic product of \$500bn.

All this would transform

Painful prospect

John Burton explains the effects the IMF-led reforms will have on South Korea



A South Korean protests at the IMF package

the *chaebol*, which have average debts of more than four times equity. A reduction in bank lending would force them to turn to capital markets for financing, subjecting them to the greater discipline of investors and shareholders.

A limit on cross debt guarantees among their subsidiaries could lead to the unravelling of the industrial groups and force them to focus on core businesses instead of diversifying their operations. Those *chaebol* running into financial trouble would no longer be able to rely on the state to bail them out through subsidies or tax privileges.

But will it all work? Although reforms similar to those proposed by the IMF have long been pressed on Korea by international economists and organisations, there is a wide gap between what has been formally agreed and what will be implemented.

This is not surprising. IMF measures mean painful adjustments for bureaucrats and politicians, *chaebol* owners and workers alike.

Worst affected will be the workers, as economic slow-down and industrial ration-

alisation lead to mass redundancies. Unemployment is likely to rise from its present level of 2.4 per cent to at least 6 per cent.

The IMF is pushing for the reform of rigid labour laws to make it easier to sack workers, who have grown up with lifetime employment guarantees. If serious social tensions are to be avoided, labour reforms will have to be matched by improvements to the meagre unemployment insurance scheme.

"It is the workers, not the government officials or corporate leaders responsible for our economic crisis, who will have to bear the brunt of any IMF measures," says Yoon Young-mo, international secretary for the Korea Confederation of Trade Unions.

Chaebol officials are also angry. They claim to detect a conspiracy by the US and Japan to use the IMF reforms to weaken their international competitiveness. Reforms would also deprive bureaucrats of their considerable economic powers, with a resulting loss of social status.

Korea's next president, due to be elected on December 18, will probably be

forced to preside over the worst economic downturn in decades as a result of the IMF agreement. The two leading candidates both criticise the package as they appeal to populist sentiment among voters.

The prospect of political protests and social unrest could expose what is considered the fatal flaw in the IMF's conditions: the lack of a detailed schedule for implementing reforms. "The Koreans are relentless in pursuing their policy goals. Even if you think you have an agreement, you don't," says the western diplomat.

Analysts expect renewed bargaining during the next few months over the progress of the reforms, a process that will be complicated by this month's elections.

That could further undermine foreign investors' confidence. "Korea is going to get smacked again if it shows a lack of understanding and commitment to the IMF package," says a US investment bank official. "The markets have focused on the things you can't fix overnight and the mood is already deeply pessimistic about Korea's structural problems."

There are suggestions that Korea might try to avoid the most painful parts of reform by playing for time. "If the *chaebol* cut investments and generate enough cash flow, they could quickly reduce their debt levels," says Daniel Harwood, north-east Asia manager for ABN Amro Hoare Govett.

But foreign bankers believe Korean banks and conglomerates will have difficulty raising new capital if the pace of reforms slows.

"Short-term lending will probably not be affected now that the IMF has arrived, but I doubt whether lending by foreign banks will be increased," says a UK banker. "The Korean banks still don't appreciate the fundamental economic problems. I find this frightening."

Richard Samuelson, branch manager for SBC Warburg Dillon Reed in Seoul, predicts that Korea may suffer another debt crisis in the first months of next year. "The problem with the IMF is that it is offering a macro-economic solution to what is essentially a micro-economic problem - Korea's uncompetitive banks and businesses."

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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IMF bail-out of Korea highlights lack of market disciplines

From Ms Ann Pettifor.
Sir, You are right - the International Monetary Fund's \$57bn bail-out of South Korea investors should make us all feel queasy ("Korea's rescue", December 4). We at the Jubilee 2000 Coalition feel particularly queasy. The IMF has failed, so far, to find \$20.08bn to help write off debts of the poorest countries.

Of greater concern, however, is the moral hazard implied by the IMF's bail-out of what you correctly describe as "every idiot who has lent short term to fund long-term investment".

The IMF's bail-outs of Thailand, Indonesia and Korea highlight the inherent

hazards of an international financial system in which neither the market, nor an international insolvency procedure, imposes discipline on creditors. Instead, they enjoy protection from market forces by bodies like the IMF and World Bank. This leads, as the IMF's Stanley Fischer admitted in Hong Kong, to increased moral hazard in lending, and to riskless decision-making.

At the heart of the western market system is the precondition that economic decisions must also carry financial risks. Where the link between economic decisions and risk is severed, we are told, economic efficiency is endangered. This happened

in the former communist economies, and the IMF has been anxious to discourage such economic inefficiency. Why is it, therefore, defending economic inefficiency in western financial markets by protecting reckless, compulsive creditors? Is it not time to review the absence of legal or market disciplines on international creditors, and to argue for fairness, and therefore economic efficiency, in relations between debtors and creditors?

Ann Pettifor, director, Jubilee 2000 Coalition, PO Box 100, London SE1 7RT, UK

Value for money needed in audit costs

From Mr Brian R. Disbury.
Sir, Your leader "Wonderland accounting" (November 26) mirrors my views of many years about the accounting/auditing profession. I retired some 10 years ago as a partner in a "Big Six" practice - not of retirement age but head-hunted to join the "real world" - and some years ago you published my letter (November 23 1990) where I said that plc audits were worth only £1,000 per annum as they protected no one.

Since then we've had BCCI, Barlow Clowes, Barings, Eagle Trust, Ferranti,

Maxwell, Polly Peck, Wickes etc. And now Allied Textiles and Yamachi Securities. There will be others, and we all know how difficult it is to win if auditors are sued where the only people who do win are the lawyers - and there hangs another tale!

Partners in leading accounting firms are among the highest paid individuals, but we have to ask why, especially when most of their income is derived from auditing. We have to ask who they are protecting apart from themselves: it is certainly not shareholders, to whom they owe a duty of

care, and it is definitely not the banks or the unsecured and unsuspecting creditors, to whom it is determined (for what reason I know not) that they have no duty at all.

I say again (and perhaps those that matter might listen this time) that plcs should not pay more than £1,000 per annum for their audits unless they can be certain that they are getting real value for money.

Brian R. Disbury, 16 Meichley Park Road, Edgbaston, Birmingham B15 2PG, UK

Long tradition of black actors at RSC

From Mr Ray Fearon and others.

Sir, We the undersigned black actors are writing on behalf of the entire acting company of the Royal Shakespeare Company.

In Alastair Macaulay's review of *Twelfth Night* at the RSC ("Hilarity and pathos go by the board", November 27), he referred to the casting of one of the actors as "tokenism" and implied that his acting ability was somehow

related to his colour. We represent just some of the black actors currently working for the RSC in roles as various as Romeo, Tybalt, Mistress Quickly and Everyman, and strongly resent Mr Macaulay's suggestion that we have been cast as a result of a policy of tokenism and not on the grounds of merit.

Furthermore, we find the suggestion racist and offensive. Mr Macaulay might also like to know that there is a long tradition of black

actors appearing at Stratford. Edric Connor was the first and did so way back in 1958.

Ray Fearon, Jon Clairmonte, Tina Gamble, Nigel Clauzel, Dona Croll, Andrew Ufonda, Rowan MacCallum, Royal Shakespeare Company, Stratford-upon-Avon, Warwickshire, UK

Dangerous enough to tax

From Mr Chris Hale.
Sir, Presumably now that beef has become such a threat to the health of society, the UK government can now tax it along with alcohol and tobacco and use it as a source of revenue. Maybe the National Farmers' Union should be considering sponsorship of sporting events?

Chris Hale, Napier Richards, The Wheelhouse, Bonds Mill Stonehouse, Gloucestershire, UK

From Mr Paul Walter.
Sir, The UK government has banned beef on the bone to avoid the faint possibility of a few deaths per year. Will it now ban cigarettes to save well over 100,000 lives a year?

Paul Walter, "Ronalds", East Fields, 12 Stanley Road, Newbury RG14 7PB, UK

Invest in the brand

From Mr George Collie.
Sir, The question of how to exploit a potentially great international brand, Liberty, currently incarcerated in a dilapidated though charming prison premises in London's Regent Street, seems to have been missed (Lex: "Liberty", December 2).

A large part of the £43m which the current board plans to invest in "bricks and mortar" might be better allocated to more vigorous brand development. Instead, by choosing to be followers of fashion and making the store a Harvey Nichols clone, the board is not only betting the company but ignoring its most valuable asset - the Liberty brand.

George Collie, 10 Cromwell Grove, London W6 7RG, UK

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Monday December 8 1997

WTO rules, okay?

The dismissal by a World Trade Organisation dispute panel of US and European Union complaints that Japan has discriminated against photofilm imports is a forthright affirmation of judicial independence. The panel's judgment was clearly unswayed by fear of displeasing the WTO's two most powerful members. Such impartiality is commendable. But it also puts the institution's authority squarely to the test.

Politically, the ruling could hardly come at a worse time. The outrage it has provoked in the US can only make harder President Bill Clinton's task of obtaining fast-track trade negotiating authority from Congress. The decision also risks eroding further US support for multilateralism and encouraging demands for a reversion to strong-arm trade tactics towards Japan, based on threats to penalise its exports.

Such a reaction would ill serve US interests. As the most active petitioner of WTO dispute panels, and winner of every case it has brought until now, the US has nothing to gain by calling the system into question. It is insisting that important WTO rulings against the EU's banana regime and beef import ban be rigorously enforced. Equally, as Mr Clinton's advisers are keenly aware, taking a sledgehammer to Japan's trade

practices could damage its fragile attempts to restore financial stability and economic growth.

The photofilm judgment is in any case only preliminary and may be appealed. But weaknesses in its WTO case suggest the US should not bank on a reversal. Not only have some Japanese restrictions it cites been amended. A more fundamental problem is that the US is invoking trade law against practices and regulations that many experts consider to be matters for anti-trust scrutiny.

Yet Washington has so far resisted moves to extend the WTO's jurisdiction to cover competition policy. It needs to rethink its position. It would be perverse to accuse the WTO of not tackling alleged barriers to competition in other countries' markets, while denying the organisation the tools required to deal with them.

While the US needs to guard against hasty overreaction to the photofilm judgment, Japan should not seize on it as a pretext to relax efforts to deregulate its economy. That would make it harder for Mr Clinton to contain pressures in the US to hit back at Japan. Yet more important, it would delay still further measures that are vital to economic recovery. Winning one small victory in Geneva is no reason for Japan to abandon the much bigger struggle at home.

Anwar's move

The economic austerity package announced by Anwar Ibrahim, Malaysia's deputy prime minister and finance minister, amounts to the most significant step in the right direction since the country was caught in the Asian currency turmoil last July. It brings belated recognition of the inevitable slowdown in growth, and radical action to curb government spending - to be cut by at least 18 per cent next year. It is also a political gamble for Mr Anwar.

Mahathir Mohamad, the prime minister, has given a decidedly lukewarm endorsement of the measures. No wonder. They represent a radical change from his rhetoric of recent months, which seemed to blame everyone except his own government and business associates for the crisis. Mr Anwar even contradicted a statement his premier made only one day before that the \$8bn landbridge across the Malay peninsula to Thailand would still be built. Now it is to be delayed indefinitely.

The realisation that the Malaysian economy must slow down is welcome, although a downward revision from 8 to 7.5 per cent in 1997, and a forecast of 4 to 5 per cent growth next year, may still prove optimistic. Perhaps more important, however, in terms of putting the economy back on a sound foundation, is Mr Anwar's

announcement that he will not bail out any more insolvent banks or businesses, even the politically well-connected. That could set him on a collision course with the prime minister. The immediate reaction of the markets to Friday's package was positive, but the stock exchange could suffer from the consequences. This is going to be a very painful austerity package if carried out as intended. Mr Anwar has also given the banks a green light to call in stock market investors' debts from margin borrowing. That has been a widespread practice underpinning share prices.

Dr Mahathir's response is critical. The package has the approval of the cabinet, but the prime minister could overrule it with his National Economic Action Council, a body he has promised to create with sweeping emergency powers. There appears to be a struggle for power between the prime minister and his deputy.

Mr Anwar's reforms are essential and overdue, and supported by many important financial institutions. Dr Mahathir has seemed increasingly out of touch with reality. But he is a consummate politician. Malaysia's success owes much to his past political direction. Its recovery will now depend on his willingness to accept the reforms, and put the economy back on a firm footing.

Beef wars

Consider the scene: a group of factory workers whose jobs are threatened by the high pound hit a Bank of England bullion van. In full view of the police they tip it into the Thames.

They claim that the gold is artificially cheap and might be used to prop up sterling. They demand a cut in interest rates. The police say that, if much more gold goes into the Thames, they might have to take the matter seriously. The Bank says it will never yield to pressure. But if the workers agree to stop throwing away its gold, it might consider an urgent cut in rates.

Relations between the UK government and protesting farmers seem to be infected by a logic almost as crazy. The farmers, having destroyed imports of Irish beef and mounted angry pickets, are now blockading ports. Ministers express sympathy for the farmers and make routine calls for them to obey the law. But instead of a concerted effort to make the police take a more vigorous line against illegal action, there are vague hints that, if the farmers put their tractors back in the barn, something might be done.

According to the absurd rules of Europe's Common Agricultural Policy, the farmers have a case. Sterling's strength caused four devaluations of the green pound this year. Since farm prices are set in Ecus, profits have been hit. Under CAP rules, UK farmers would be entitled to

nearly £1bn (\$1.57bn) compensation from EU funds, if the British government would apply for it.

But the government has been reluctant to do this. As a result of past negotiations, 71 per cent of the bill would have to be met by British taxpayers. Irish farmers, who received the equivalent compensation, are able to export subsidised beef.

The scheme is fundamentally unfair. Farmers are price takers in the EU. It is true; but so are other businesses. If sterling falls next year, as the authorities hope, profits of manufacturers and farmers would both rise. But would UK farmers pay back the £1bn? Not likely.

Instead of promising vaguely to help farmers if they will stop throwing beef away, the UK government should pledge to use its EU presidency to make a vigorous attack on the absurdities of the CAP regime, which are the cause of the trouble. If a people's Europe means anything, it should include a fair deal for consumers and fewer handouts to producer lobbies.

Meanwhile, ministers should stop being mealy-mouthed about the duties of the police. Tony Blair, the UK prime minister, recently read Lionel Jospin, the French premier, a lecture on how to stop lorry drivers from blockading the ports. The traditional French method is to give in, thus encouraging the strikers to do it again. That should be a lesson for Mr Blair.

The \$600bn question

Are SBC and UBS set to take one of the few places at the global banking top table, ask George Graham and Jane Martinson

Restructuring in Switzerland's financial services industry is as sure as next Christmas Day, one senior Swiss banker commented last year.

This year Christmas has come early. Indeed, it has struck twice: after Credit Suisse's SFR4bn (\$38bn) merger with Winterthur in August, the country is now braced for the announcement this morning of a much larger combination between Union Bank of Switzerland and Swiss Bank Corporation.

Marcel Ospel, SBC's chief executive, and Mathis Caballavetta, his opposite number at UBS, started discussions some months ago, but their talks are understood to have escalated after the Credit Suisse-Winterthur deal.

The combination, likely to be called United Bank of Switzerland, will be the second largest commercial bank in the world, after HSBC, with assets of nearly \$600bn. It would also be the largest fund manager with some SFR1,300bn in assets once private banking is included, and the biggest European investment bank, by some margin, with between 18,000 and 20,000 staff.

Bringing together two of Switzerland's big three banks was the target last year of Rainer Gut, chairman of Credit Suisse. Before his successful approach to Winterthur, he proposed a merger with UBS but was roundly rebuffed.

Nikolaus Senn, UBS's chairman at the time, said he viewed SBC as a more compatible partner than Credit Suisse, but said he believed the time was not right for such a massive combination, although things might change in five years.

The screw has turned faster than Mr Senn predicted. The merger of Morgan Stanley, one of the top tier of US investment banks, with Dean Witter Discover, the retail brokerage, was followed earlier this year by Travelers Group's takeover of Salomon Brothers to merge it with the Smith Barney brokerage. Then Merrill Lynch, which had paved the way in the US by combining investment banking with retail broking, took another step forward with the acquisition of Mercury Asset Management, the leading institutional fund manager in the UK.

These acquisitions have raised the stakes in the global investment banking and asset management businesses. Many bankers now subscribe to the view that the next few years will bring a titanic struggle for entry into a "global bulge bracket".

In this world view, only five or six banks will make it to the top. While there will always be money-making niches for specialist



firms, the middle-ranking businesses are expected to go to the wall. For European banks, lacking an entrée into the US investment banking market - the world's largest and most profitable - the dilemma is acute.

For years, the big three Swiss banks were opaque but broadly similar organisations. Private banking services for the rich were rolled into the domestic branch banking business. Investment banking, too, was more of an outgrowth of the banks' traditional international lending business than a free-standing operation - except for Credit Suisse, which almost by accident found itself owning, if not always controlling, First Boston, the US investment bank.

Over the past two years, all three have adopted new organisational structures that brought fresh transparency to the profitability of their different operations. The changes have split private banking, investment banking and domestic retail banking, SBC and Credit Suisse have set up institutional fund management as a separate division, while UBS broke out corporate and institutional credit.

The separation of profit lines has helped investors get a clearer picture of the three banks, but it has also cast a harsh light on the problems each division faces.

Most starkly, splitting off private banking has made it clear how little money the Swiss banks had been making in domestic retail banking. That may not be terribly surprising, given the five years of stagnation that have affected the Swiss economy. Still, it has given fresh impetus to efforts to cut back on branches, staffing and management overheads.

It has also led all three banks to cleanse their stables of the backlog of bad loans to the Swiss property and industrial sectors, which they have been carrying with massive one-off provisions.

But investment banking, too, comes under new scrutiny. Although earnings have been good in recent years, they are volatile. Problems such as UBS's head to head in a wide range of areas, but particularly in corporate advisory, secondary equities and fixed income.

UBS's whole investment banking business, including a strong European equities operation built on the old Phillips & Drew brokerage and the PDM institutional fund management division. Mr Brinson joined SBC when his Chicago-based company was taken over two years ago, and SBC Brinson now manages some \$18bn.

This may not be welcome to UBS's PDM, one of the UK's largest asset managers with \$55bn in assets. The company, headed by Tony Dye, the most public market bear of recent years, is likely to fight to retain its independent stance on investment decisions.

But there could be other obstacles, too. When it was fighting off Mr Gut's approaches last year, UBS made much of the job losses that would result in Switzerland. Swiss politicians are sure to have something to say about the combination, and it will be some time before Mr Ospel and Mr Caballavetta get to play with their Christmas presents.

The combination of the private banking divisions may be smoother, but institutional investment management could prove to be a complicated and unwilling merger.

Gary Brinson, head of SBC's asset management arm, is expected to run the combined fund management division. Mr Brinson joined SBC when his Chicago-based company was taken over two years ago, and SBC Brinson now manages some \$18bn.

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William Hall

UBS: a tarnished image

The bank has also come under fire for its handling of the sensitive question of the wartime accounts of Holocaust victims.

This has led to a backlash against Swiss banks in the US, and UBS has been boycotted by customers such as New York City. In fact, UBS has far fewer dormant accounts than its two bigger rivals and far less to hide in terms of its wartime actions, but it seems to have lost the public relations battle.

and constant criticism by Martin Ebner, the corporate predator who controls the biggest stake in UBS, have taken a heavy toll. UBS's failure to pull off a big deal such as Swiss Bank Corporation's \$260m purchase of S.G. Warburg or Credit Suisse's acquisition of Winterthur has left an impression of a timid management that has lost sight of its objectives.

UBS emerged as the market leader, with a reputation as a sound conservative bank. And while most of its competitors have long since lost their triple A credit ratings, UBS continues to be rated triple A by Moody's, the US credit rating agency.

However, the bank's image has suffered recently. The aborted merger attempt by Credit Suisse

OBSERVER

Notes from small islands

■ New Zealanders have always been a peripatetic bunch, but the country's top financial bosses are cropping up in the most unlikely places. Hang around in Mongolia and you could well bump into former treasury secretary Graham Scott. Alex Spudakov, head of the New Zealand Institute of Economic Research, is a familiar face in the Ukraine. Murray Petre, another old treasury hand, is clocking up the miles round the old Soviet Far East, while his former colleague Tony Dale is busy in Croatia.

New Zealand is a paragon of financial virtue these days, so just about any country with economic ambitions wants to hear about the Kiwi way of doing things. Victoria University's Professor Claudia Scott reckons small fry like Mongolia find it easier to take advice from another tidier than from big fish like the US.

Mongolia is taking guidance on everything from privatisation to accruals accounting. Peter Boag, a former head of the State Services Commission, is giving similar advice to a number of Pacific island countries.

It's not only emerging economies that are interested. Former finance minister Ruth

Richardson recently visited Switzerland and the Netherlands to spread the word. And there's been a steady stream of dignitaries tramping round Wellington - a Swiss delegation is due in the next few days - to see how things work in practice. Proof that small is beautiful?

Bar humbug

■ Prime minister Mesut Yilmaz has been working hard to clean up Turkey's human rights image ahead of this week's European Union enlargement summit in Luxembourg. The snag is that imprisoned political campaigners just won't accept the amnesties on offer.

The authorities last month told Eker Yagmurdereli, a blind human rights lawyer, to quit jail only weeks after sentencing him to 28 years for supporting a peaceful end to the Kurdish conflict. He said he felt fine and couldn't understand why the government wanted to free him on health grounds.

Now Layla Zana, a Kurdish former MP sentenced to 15 years for belonging to the PKK Kurdish guerrilla group, is fighting government efforts to get her out of the slammer. She suffers from osteoporosis, a bone condition, but says that "compared to the democracy, freedom, and peace of a people, personal and physical freedoms

are meaningless and unimportant". Perhaps Zana feels safer in jail than on the outside, where enemies of the state continue to "disappear" at an alarming rate.

Cold shoulder

■ Bill Clinton may be in the clear, but Washington's fund-raising scandal continues to claim new victims. The latest casualties are several of the White House's annual Christmas parties. With the Democratic party still deep in debt, seasonal spending has been slashed by \$100,000 and the traditional schedule of 25 parties has been slashed to only 15. The decision leaves many of Washington's glitterati terrified of being left out in the cold, though it should help keep the presidential paunch in check.

Call girls

■ "Imagine Sao Paulo without Telesp," say adverts for the city's telephone company. Customers didn't have to stretch their imaginations very far last week, thanks to the popularity of Fantasia, an afternoon TV programme featuring attractive young ladies miming pop songs. Presenter Debora Rodrigues - a campaigner for land reform until she appeared on the cover

of the Brazilian edition of *Playboy* - invited viewers to call a toll-free number to compete for cash prizes. So many took up the challenge that Telesp was unable to cope. Fantasia has now withdrawn its toll-free number until more lines are installed. And Ms Rodrigues is telling viewers: "Don't call us, we'll call you."

Which watchdog

■ It's no surprise to learn that the average financial regulator is a 50-year-old male with a degree in economics. But the newly-published *Who's Who in Financial Regulation* reveals that they're not all as dull as ditch-water. One day you'll be glad you knew that Bank of Jamaica bigwig Aubrey Anderson grows orchids; or that Mumbai Kapumba, chief executive of the Zambian Securities and Exchange Commission, is an amateur thespian.

Bank of England man Michael Foot is just the chap to blow the whistle on dodgy banks - he's a football referee in his spare time. And it's worth keeping on the right side of Maggie Bready, Superintendente General at the Central Bank of Costa Rica; at 77 she may be the world's oldest financial regulator, but apparently she's still a dab hand on the shooting range.

Financial Times

100 years ago

The Case Of The Vanishing Rail Vans
North America is large and pretty well covered by railway lines, so that when a railway goods van is once beyond the ken of its proper owners it may travel far and long before it reaches home again. A case has recently come to light where such a van was lost for ten months, the line to which it belonged ascertaining afterwards that it had been almost constantly on the go, touching at such widely-separated points as Minneapolis, Montgomery (Alabama), New York and Montreal. Another vehicle has been absent 474 days, and is still missing.

50 years ago

Trouble In South America
The Bank of London and South America is an energetic institution whose fortunes are of the greatest importance to Britain's overseas trade. In these days when Latin American dictators are busily increasing the difficulties in the way of Britain's trade, the bank has many problems. Luckily it has never lacked for able men, thoroughly experienced in the affairs of the South American continent.

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FINANCIAL TIMES

Monday December 8 1997

20th Anniversary
British Midland
The Airbus for Europe

Commission to propose action on covert alliances

Italy plans shake-up of corporate governance

By James Biltz in Rome

The Italian government will this week launch its most concerted attempt to reform the way the country's leading companies are run.

In the face of concern that Italy's corporate world is dominated by covert alliances among big-name companies that work against the interests of small shareholders, a commission examining corporate governance and takeover law is to make a range of proposals to parliament.

Among them is a law to stop large shareholders controlling a company if they have well below half the company's shares, and new rules allowing minority shareholders to vote at annual general meetings and sue company boards.

The commission, headed by Professor Mario Draghi, the Treasury's director-general, has triggered fears among leading businessmen that the

traditional Italian way of controlling companies could be fundamentally changed.

The commission's work has aroused particular interest because of the recent resignation of Guido Rossi as chairman of Telecom Italia. He tried without success to introduce corporate governance rules for the newly privatised company.

There are increasing signs that lower interest rates are pushing small Italian investors out of government bonds and into equities. These shareholders' rights need protection.

One of the central proposals is for a new rule on takeovers that would require a company to make a formal public offer to purchase all the shares in another company once it owns 30 per cent of its capital.

The Draghi commission is concerned that organisations have been able to control a company with a 30 per cent stake - and sometimes less - by relying on covert relation-

ships with other shareholders.

The second important proposal comes in the area of shareholders' voting rights. The use of proxies at shareholders' meetings is largely unknown in Italy, and the commission will introduce proposals obliging proxies to be used - and for the voting intentions of small shareholders to be transparent and strictly adhered to by institutions representing them at AGMs.

Finally, the commission is to propose new rules on cross-shareholdings between companies. The current 2 per cent limit on cross-shareholdings, which is much lower than in France and Germany, is to remain as a general rule.

However, in an attempt to bring Italian practice in line with that of the rest of Europe, the limit will be raised to 5 per cent if shareholders' meetings of both the companies involved give their approval.

Loan for Russian diamond producer collapses

By Kenneth Gooding, in London

A \$500m loan facility for Russia's biggest diamond producer, Alrosa-Sakha (ARS), arranged by a group of western banks, has collapsed.

This is a substantial setback for ARS, which urgently needs to refurbish existing mines and finance new exploration. Analysts suggest NatWest Markets of the UK, which was leading the loan, withdrew because of turbulence in Asian financial markets is spilling over to other emerging markets, including Russia. They say ARS and the banks could not agree what changes should be made to the deal, and the banks reluctantly withdrew.

The loan was put on hold in January when De Beers, the South African group which dominates world trade in rough, or uncut, diamonds, ended its formal links with Russia.

The loan facility had been conditional on ARS supplying diamonds to De Beers, which then would repay the banks. De Beers finally reached agreement on a new contract with Russia in October.

In the meantime, NatWest helped to arrange a loan from some Russian banks for ARS to help keep production going.

ARS needs the cash to develop new sources of diamonds to replace its declining Udachny mine in Siberia. "Unless ARS gets this money, the long-term ability of Russia to mine diamonds is in question," said one analyst.

Diamond International, published by the CRU International consultancy, reported that ARS also hoped to raise several hundred million dollars via a Eurobond offering late this year, with the help of SBC Warburg Dillon Read and Salomon Smith Barney.

"That is if the rating process now under way in Moscow can produce what many doubt is possible - a clear picture of the company's internal financial flows and diamond inventory," it said.

Under the terms of the contract with De Beers, Russia is to sell \$550m-\$1.2bn of diamonds a year to the South African group's London-based Central Selling Organisation.

The contract runs only to the end of 1998 instead of the usual five years, and this puts more pressure on ARS in dealing with the western banks. The contract can be extended by two years by agreement, but there is no certainty this will happen. At the time of the signing, Nicky Oppenheimer, De Beers chairman-elect, said no extension would be considered unless Russia lived up to the terms and the spirit of the new agreement.

THE LEX COLUMN

Swiss swank

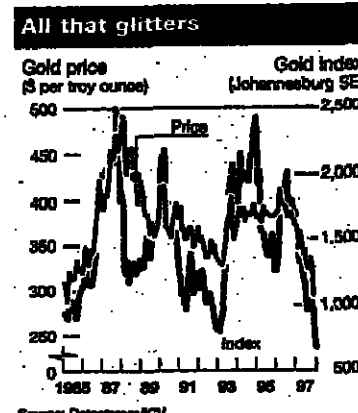
The expected merger between Union Bank of Switzerland and Swiss Bank Corporation to create the world's second largest bank would not lack for either ambition or logic. Slamming together their overlapping retail banking operations is obviously sensible. Domestic banking mergers offer greater scope for cost savings than mergers across regions. However, the challenge is enormous and signs that SBC executives would hold the key posts are encouraging. They have a better track record than the UBS team. Furthermore, the successful cost-cutting by Swiss pharmaceutical giants Ciba and Sandoz is a heartening precedent for a merger of such social and political significance.

Together UBS and SBC's fund management and private banking businesses would tower over rival Credit Suisse, though they would still have to prove that bigger is better. Doubt remains, however, over the new entity's investment banking strategy. Through acquisitions, SBC now has a credibility that UBS's largely organic growth has not delivered. Selling the UBS business would be a possibility. However, as it is no more impressive than the investment banking arms of NatWest and Barclays - which were difficult to sell - expectations should not rise too high. Nor should they entertain hopes of joining the first division of global investment banks without a stronger US presence.

SA gold

The South African gold mining industry is undergoing seismic change. In future it will be dominated by two companies: AngloGold and Goldco, vehicles for the gold interests of Anglo American and Gold Fields/Gencor. Instead of buying shares in individual, finite life mines, investors will have the choice of two companies with potentially indefinite lives. Moreover, both will be freed from the traditional encumbrances of South Africa's mining house structures, especially the payment of hefty fees.

Right now, this is hardly exciting news. A plunging gold price has left most investors wishing they had never heard of the metal. But even gold shares will have their day, and when it comes the two South African companies will be hard to ignore. Low production costs, large reserves and potentially significant



Source: Datastream/ICV

has some appeal. With conventional gilts there is always the uncertainty of the yield at which future coupon income can be invested. But an investor holding a stripped gilt to maturity knows exactly what the return will be. The certainty of income on a specific date also has its advantages. Unfavourable tax treatment and price volatility will probably scare off individual investors. But if the government really wanted to encourage liquidity, it should consider allowing them to be put into the new individual savings accounts.

Merrill Lynch

From Smith New Court and Mercury Asset Management in the UK, to brokers in Spain, Italy and Australia, Merrill Lynch has bought bravely into foreign markets. Now it looks set to enter the even more adventurous Silicon Valley by taking over Hambrecht & Quist, a San Francisco-based investment bank.

Acquiring a technology boutique like H&Q would make sense for Merrill, which has long lagged arch-rivals Morgan Stanley and Goldman Sachs in this fast-growing sector. But the mooted price of up to \$1.3bn - equating to four times book value - looks high. BankAmerica and Fleet Financial paid similar multiples for two other specialist investment banks, Robertson Stephens and Quirk & Reilly, respectively. But these were commercial banks acquiring the expertise to move into an entirely new industry. It is not clear why Merrill, which is simply plugging a product gap, should pay a similarly high premium. Given its depth in sales and trading, a cheaper way into the technology sector might be to hire a good team of investment bankers and analysts - as Deutsche Morgan Grenfell did last year.

That said, even at the suggested price, H&Q would be a relatively small morsel for Merrill. The big broker has developed a strong culture and its track record for buying and integrating far-flung acquisitions has been good over the past few years. With a return on capital of nearly 30 per cent - admittedly in a bull market - Merrill's management deserves the benefit of the doubt.

Correction: Cookson

Contrary to the report on Saturday, Cookson has not issued a profit warning.

Companies' Emu costs

Continued from Page 1

a direct result of the price transparency created by a single currency.

But companies also believe that long-term gains in efficiency will more than offset the negative cost implications in the short run.

Vicky Pryce, chief economist of KPMG Management Consulting, said: "The one-off costs of the single currency will be extremely high, but these are likely to be dwarfed by longer-term reductions in margins that will result from downward pressure on prices, or upward pressure on wages."

"Despite these potential pitfalls, an overwhelming majority of respondents in our survey believe Emu will have a positive impact on profitability," she said. The response suggested that EU companies might be taking a "rosentinted" view of Emu.

Of the respondents, 64 per cent said they expected the range of prices for nearly identical goods or services to narrow. About 49 per cent of respondents said average prices would go down.

The KPMG report said: "This is a recognition that a single currency will make it increasingly difficult to maintain different pricing structures for different markets. Any such discrepancies will be removed by grey imports - traders buying cheaply in one market and undercutting the prevailing price where it is higher - and by cross-border international buyers."

A vast majority - 87 per cent - believe Emu will be beneficial to their companies.

Europe's telecoms connection rates 'stifle competition'

By Alan Cane in London

Competition in Europe's liberalising telecommunications markets is in danger of being stifled by high and widely diverging interconnection charges, a report suggests.

That is the principal implication of a broadly based study by Ovum, a London-based consultancy, comparing the interconnection rates levied by telecom operators across the world.

The study indicates clearly that where regulation is rigorous and interconnection charges low, as in the UK, competition flourishes. The opposite is true where regulation is weak or absent. In New Zealand, where there is no regulation, charges are five times higher than those in the UK.

Interconnection charges are the prices paid by rival operators in a competitive market to the incumbent operator for conveying or delivering calls. The incumbent typically owns the only nationwide infrastructure and its rivals have to use its network to carry their calls for part of their journey.

Representing more than 50 per cent of a typical company's operating expenses, they are the most important single element in determining how quickly competition develops. The higher the interconnection charge, the less easy it is for a rival operator to undercut the incumbent on price.

sponsored by British Telecommunications, the dominant UK operator, in a campaign to secure common standards of telecoms regulation across Europe.

BT has invested millions in alliances in the main European countries. It will be at a disadvantage if high interconnection charges mean competition develops only slowly after January 1 1998, the date set by the European Commission for telecoms market liberalisation.

The Ovum study shows interconnection charges across Europe for delivering a call range from 0.58p (0.63 cents) a minute (ST) to 2.27p a minute (Telecom Italia). BT's prices were the lowest of the 17 operators surveyed, including the US groups Bell Atlantic, Ameritech and Nynex.

All the European operators with the exception of BT, Deutsche Telekom and Telia of Sweden were more expensive than "best practice" limits set by the European Commission.

International call prices are governed by the accounting rate system where operators pay each other similar but inflated amounts to carry each other's calls. This is expected to collapse at some future date.

If it is replaced by a form of interconnect pricing at today's levels, it would result in a significant imbalance in payments between the UK and its continental European partners.

Europe today

Snow is likely in Scandinavia but it will turn to rain later, except in Finland where it will stay very cold. The Balkans and Italy will have some sunshine after early fog patches have cleared.

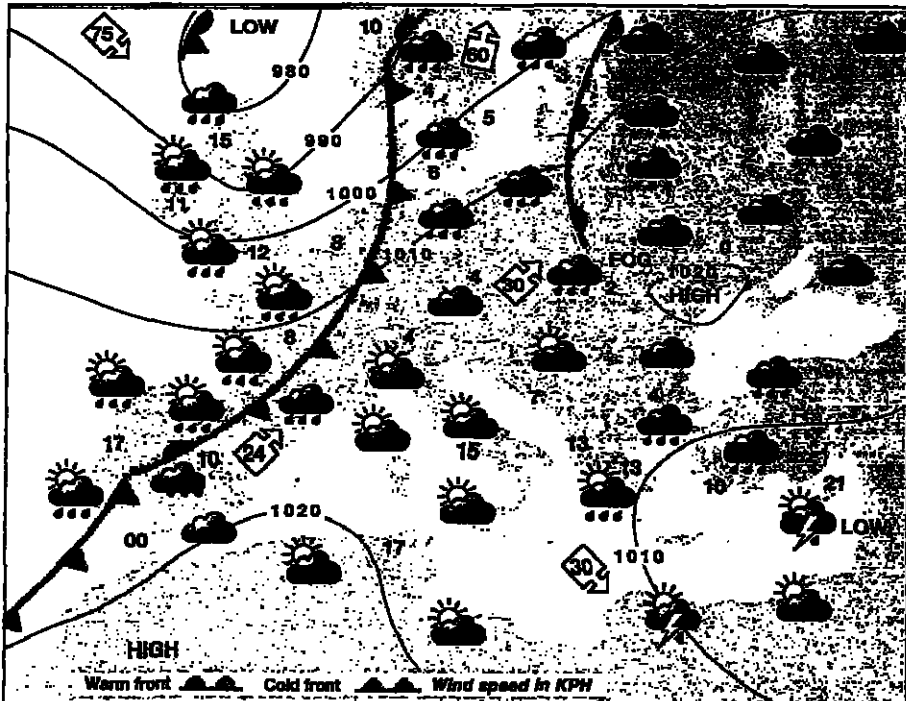
The eastern Mediterranean, including Greece and Turkey, will be wet with some heavy showers and occasional thunderstorms.

Spain and Portugal will cloud over during the day, with rain moving in from the north-west. Western Europe will become breezy, with showers moving south-eastwards.

North-western Europe and the British Isles will have heavy showers and strong winds.

Five-day forecast

High pressure will ensure north-western Europe remains settled. In the second half of the week western Europe will become increasingly cloudy and wet. The Mediterranean will remain generally settled.



TODAY'S TEMPERATURES

Location	Temperature
Madrid	2
Belling	2
Celcius	2
Beijing	2
Sun 26	2
Belgrade	2
Accra	2
Algiers	2
Amsterdam	2
Athens	2
Atlanta	2
B. Aires	2
Buenos	2
Bangkok	2
Barcelona	2

Situation at midday. Temperatures maximum for day. Forecasts by FA Weather Centre

Fair 2	Cardiff	Shower 11	Frankfurt	Fair 5	Madrid	Dzizz 10	Rangoon	Fair 34
Fair 2	Cardiff	Shower 11	Frankfurt	Fair 5	Madrid	Dzizz 10	Rangoon	Fair 34
Fair 2	Cardiff	Shower 11	Frankfurt	Fair 5	Madrid	Dzizz 10	Rangoon	Fair 34
Fair 2	Cardiff	Shower 11	Frankfurt	Fair 5	Madrid	Dzizz 10	Rangoon	Fair 34
Fair 2	Cardiff	Shower 11	Frankfurt	Fair 5	Madrid	Dzizz 10	Rangoon	Fair 34
Fair 2	Cardiff	Shower 11	Frankfurt	Fair 5	Madrid	Dzizz 10	Rangoon	Fair 34
Fair 2	Cardiff	Shower 11	Frankfurt	Fair 5	Madrid	Dzizz 10	Rangoon	Fair 34
Fair 2	Cardiff	Shower 11	Frankfurt	Fair 5	Madrid	Dzizz 10	Rangoon	Fair 34
Fair 2	Cardiff	Shower 11	Frankfurt	Fair 5	Madrid	Dzizz 10	Rangoon	Fair 34
Fair 2	Cardiff	Shower 11	Frankfurt	Fair 5	Madrid	Dzizz 10	Rangoon	Fair 34

We wish you a pleasant flight.
Lufthansa

Banque Audi sal

Banque Audi S.A.L.

Offering of
3,000,000 Global Depositary Receipts
raising US\$81,000,000

Issue Price of US\$27.00
per Global Depositary Receipt

Robert Fleming & Co. Limited

Merrill Lynch International

HSBC Investment Banking

Nomura International

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INSIDE

Investors in Asia
regain confidence

South Korea
Asian confidence rose last week after South Korea agreed a \$57bn rescue package with the International Monetary Fund. Indonesia and Thailand had already arranged IMF adjustment deals, while on Friday Malaysia revealed a hefty set of economic reforms. Fears of unpaid debts and uncontrolled collapses of banks and companies are waning. Currencies, Page 25

INTERNATIONAL EQUITIES
New issues breathe life into Asia
After south-east Asia's turmoil, there are signs of life in at least one area - the new issues market. Several Hong Kong companies are preparing to launch their shares and China National Aviation is to relaunch its offering. Page 24

COMMODITIES
Supply of oil from Iraq is switched off
This week oil traders will be looking out for the market's reaction to Iraq's decision not to renew its oil-for-food deal with the United Nations. The last six-monthly deal expired on Friday, and Iraq oil then ceased being pumped to Ceyhan, the Turkish Mediterranean port. Page 25

EMERGING MARKETS
Buoyant Taiwan out of step
Taiwan's stock market last week embarked on a post-election rally. But the question looming over the week's heady 12 per cent share price rise is how long the celebration will last, given uncertainties over fall-out from financially wobbly Korea and Japan. Page 26

MARKETS THIS WEEK
New York
This week sees the publication of two indicators to show whether the labour market's good health has resulted in higher prices. Retail sales data for November are expected to show a strong rise of 0.4 per cent. This will be followed by producer price index figures. 25

London
UK stocks burst back into life last week, with the Footsie regaining the 5,000 level it lost in the midst of October's setback. Tomorrow sees fresh retail price data and the view is that underlying inflation will stay at 2.8 per cent, above the government's 2.5 per cent target. Page 25

Frankfurt
Although investors still have a wary eye on Asia, the mood in Germany is becoming more confident. After forecasts that unemployment could exceed 5m early next year, attention will be paid to tomorrow's figures for November. These are expected to show a rise. Page 25

Japan
A nervous week for Tokyo markets looms, following the wave of collapses in Japan's financial sector. Attention will focus on a package of measures the government is expected to announce to boost confidence in banks and brokers, and the broader economy. Page 25

INTERNATIONAL BONDS
Sydney ponders its electronic futures
If the Australian exchange goes ahead with its recently announced plan to replace its traditional "open outcry" futures markets with a computerised system, it will be the first sizeable futures market to make the transition. Page 26

FT GUIDE TO THE WEEK
- full listings Page 36

SINN FEIN AT No 10
Sinn Féin leaders are due to meet Tony Blair, the UK prime minister, in Downing Street on Thursday. Many have expressed outrage at the meeting. It is the first time senior Irish Republicans have been invited to talks at Downing Street since 1921.

LABOUR FACES FIRST REVOLT
On Wednesday Britain's Labour government faces its first serious backbench revolt since the election in a vote to cut benefits to lone parents. Some 2,000 delegates, including 350 Members of Parliament, are expected to attend the Organisation of the Islamic Conference in Tehran, which begins on Tuesday.

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Promodès in \$926m Italian deal

By Paul Bettis in Milan, Andrew Jack in Paris and Peggy Hollinger in London

French retailer takes stake in GS group

The French retail industry stepped up its onslaught on the Italian market at the weekend with the announcement that Promodès, one of France's largest hypermarket chains, was taking a stake worth about L1,600bn (\$926.92m) in GS, Italy's third-largest supermarket group.

The French group, which is locked in a hostile takeover battle for control of its French rival Casino, is also expected to announce this week the purchase of a smaller regional food retailer, Cateau, from Tesco of the UK for about \$225m (\$375.75m).

The transactions appear to defy suggestions that the Casino takeover battle - which was launched this autumn and has been prolonged until the end of January by a legal appeal - is restricting Promodès' ability to expand.

However, Promodès itself stressed yesterday that the Italian deal was costing nothing at present. It refused to quantify the synergies triggered by the deal, but said it would increase returns to shareholders from next year.

Promodès' Italian deal comes on the heels of the recent strategic partnership between the

French Auchan hypermarket group and Rinascente, Italy's second-largest retailing company after the Co-op group. It also coincides with negotiations between the French Casino chain and Standa, the Italian retailer controlled by Fininvest, the holding company of former prime minister and media tycoon Silvio Berlusconi.

Under the latest deal, the French group will combine its existing Italian operations with GS and some of the activities of the retailer Finiper, taking a 32 per cent stake in the combined group.

It said it had an option to increase its share to 50 per cent in 2000.

The partnership between Promodès and GS will create a retailing operation in Italy with annual sales of about L8,300bn, while Finiper has turnover of about L2,500bn a year.

The new partnership reflects the long awaited shake-out and consolidation of the Italian distribution industry which has traditionally lagged its European counterparts. Italian distribution has continued to be dominated by small retail businesses. In the food

sector alone, only 6 per cent of the Italian market is controlled by hypermarket chains compared with 47 per cent in France.

The strength of the big hypermarket operators in France has been a significant factor in Tesco's decision to sell Cateau to Promodès.

The deal, which has been widely expected, will be welcomed by Tesco's shareholders who have been unhappy with Cateau's dull performance since acquisition in 1993 for \$175m. The chain has suffered falling margins and been disadvantaged by its relatively weak position compared with operators such as Promodès and Carrefour, and discounters such as Aldi.

Lorrho in talks over bid for SA mining group JCI

By Chris Gresser

Lorrho, the British-based conglomerate, is in discussions with JCI about a bid for the South-African mining group. In a move that would remove an unwanted shareholder from Lorrho's register and effectively achieve the same benefits as a large buy-back.

The talks are the latest twist in labyrinthine negotiations within the mining sector.

In the past year, South Africa's Anglo American has taken a stake in Lorrho and JCI has discussed its own takeover of Lorrho.

More recently, Anglo has agreed to sell its 28 per cent Lorrho stake to JCI in exchange for JCI's gold interests.

If the latest deal is approved by the European Commission, JCI would be left with a small portfolio of metal interests, including a 57 per cent stake in a chrome producer, a cash pile of up to \$100m (\$167m) and a holding in Lorrho.

In a separate deal, JCI plans to sell its Tavistock coal mines to Duiker Mining, in which Lorrho holds a 61 per cent stake, for an estimated \$200m.

Lorrho is believed to have balked at an earlier deal with JCI partly because it did not want to increase its exposure to gold mines.

If the takeover goes ahead, JCI's chairman, Mzi Khumalo, is expected to be elected a seat on the Lorrho board.

The talks are not expected to result in a deal before the New Year.

Anglo's stake in Lorrho has yet to be passed on to JCI. And the European Commission, which insisted that Anglo sell its Lorrho holding in the first place, may insist on certain conditions being met before JCI can assume control of the Lorrho shares. These could involve Anglo reducing its involvement in JCI.

Meanwhile, the City of London is still waiting for Lorrho to conclude the sale of its Princess Hotels and its Dutton-Forshaw motor dealership.

The sale of Princess Hotels to the Saudi Prince Al-Waleed bin Talal has been delayed for several months. Lorrho has indicated that US hotel groups could also be interested.

Edward Luce

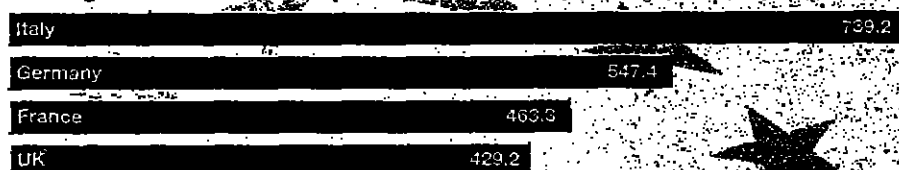
SA gold, Lex, Page 18

French bond aims to make its mark

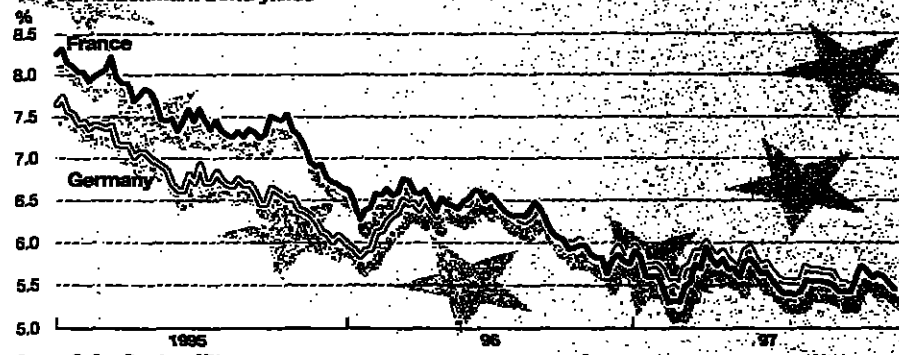
Index-linked issue seeks to lure investors in Germany

Bidding to be benchmark

Size of government bond market (Ecu bn, November 1997)



10-year benchmark bond yields



France last week unveiled plans to issue continental Europe's first index-linked government bonds as part of its initiative to establish the French government bond as the market's benchmark in euro-denominated bond trading after 1999.

Although the plans were partly overshadowed by disagreements within the French government - senior officials in the French central bank complained they had not been consulted by the ministry of finance before the measure was announced - the wider significance of the move was not lost on Europe's bond markets. France has recently launched a series of initiatives to persuade European investors to switch from the German to the French government-bond market in advance of European monetary union.

Benchmark status would lower France's cost of borrowing and win the country wider prestige in the international capital markets.

"Competition between France and Germany to win the benchmark status in the euro is becoming more aggressive all the time," said Philippe Brossard, head of research at ABN Amro in Paris. "At the moment it looks as if the French are gaining the advantage."

German officials have been

increasingly wrong-footed by French initiatives, of which the most recent was last week's plan to issue index-linked bonds. An index-linked bond is paper which pays out a coupon identical to the rate of inflation. This gives institutional fund managers security against volatility in the economy and lowers the government's cost of funding by keeping inflation at low levels.

"Issuing index-linked bonds would simply be an added advantage to investing in the French market as opposed to the German market," said Graham McDevitt, chief bond researcher at Paribas in London.

Other initiatives include France's announcement last year that it would redenominate all government debt into euros in January 1999. Others, including Germany, have followed suit. But France is the only one to have pledged to round out awkward numbers in the process and if necessary reimburse the difference in cash. "France appears to be a lot more friendly towards investors than Germany at the moment," said an official at a German bank in London.

In addition, France has a much more sophisticated market in securities repurchase contracts, or repos. These allow investors to borrow securities they do not own. This enables the investor to "short"

the market in the hope that the price of the security will fall in the intervening period.

Lastly, France has by far the most developed bond strips market in Europe. Strips are the different components of a conventional bond separated and traded as distinct securities. Germany, which introduced strips trading only in July, is again considered to be well behind Paris on this front.

"On almost all measurements France has a more liquid and sophisticated government-bond market than Germany," said Mr McDevitt.

However, some analysts warn that France's public relations effort may not prove enough to win over enough

The UK government-bond market today introduces trading in "stripped" gilts, which involves splitting a gilt into its constituent parts and trading them as distinct securities, writes Vincent Boland. The aim is to increase flexibility for bond investors, especially big pension funds and life assurance companies at which the new market is aimed.

The new market is not expected to attract much investor interest immediately because the UK's interest-rate environment means that the yield on a stripped gilt is currently lower than the yield on the same conventional gilt. In other words, the yield curve is the wrong shape.

In the longer term, however, the market is expected to take off. "This is a slow-burning candle that will get brighter with time," said Andrew Roberts, gilt specialist at UBS.

Lex, Page 18

LDV in talks with Daewoo

By Haig Simonian, in London

LDV, one of the UK's dwindling band of independent vehicle makers is in advanced talks with Daewoo of South Korea about building a successor to LDV's ageing Pilot and Convey vans.

The talks, which would probably lead to Daewoo buying into LDV, are linked to a request by LDV for substantial grants from the UK government to boost output and jobs at its Birmingham plant.

Norman Childs, an LDV official, said: "Yes, we're talking to Daewoo; yes, we're talking to the DTI. But it is far too early to say any more."

Daewoo confirmed there had been exploratory talks, but said: "Nothing has been concluded yet."

The talks started before the

recent economic turmoil in Asia, but could be delayed by the government's decision to expect among Korea's leading companies.

The aid request will put the spotlight on the UK's department of trade and industry, which is already discussing with Jaguar, and its parent company Ford, assistance to build the luxury carmaker's small X400 range at Halewood in Merseyside.

The DTI will come further into focus this week when Toyota, one of three Japanese carmakers in the UK, announces it will locate its second European factory in France, rather than expand in Britain.

LDV has been seeking a partner for more than 18 months to replace its ageing products. Although they received a facility last year, the Convey and Pilot originate

from vehicles developed when the company was part of British Leyland.

LDV survived its rebirth from the ashes of the collapsed Daf group in 1993, but it lacks resources to develop wholly new vans, which are essential to meet competition from far stronger rivals such as Ford, Peugeot-Citroën and Mercedes-Benz. Turnover rose by 6 per cent to £229m (£382.4m) last year while unit sales rose by 17 per cent to 17,684 vehicles. But operating profits, hit by the costs of the facility, fell by £1m to £20.5m.

Tying the knot with LDV would provide Daewoo with a west European production base and a substantial slice of the British market. LDV had 11.7 per cent of mediumweight van sales in the first 11 months of this year, second to Ford with 41.5 per cent.

Lyonnais may issue equity

By Andrew Jack in Paris

Credit Lyonnais, the French state-owned bank, could be partly privatised within six months, under plans being discussed by bank executives and the government.

A form of equity or other financial instruments representing 20-30 per cent of the capital could be issued by the bank as the first step towards a sell-off of the bank, which was nationalised just after the second world war.

The new instruments would not necessarily carry voting rights, but would probably receive dividends from the bank's profits, fundamentally altering the balance of power between the state and private investors in determining the bank's future.

The proposals come at a

time of intense negotiation between the French government and the European commission, which is considering revisions to the original rescue plan for the bank, approved in 1995. A decision has been postponed until at least January.

Karel Van Miert, the EU's competition commissioner, wants tough new commitments on behalf of the French government from Credit Lyonnais in exchange for endorsing a plan, the cost of which is now likely to top FF100bn (\$16.9bn), more than twice the original amount.

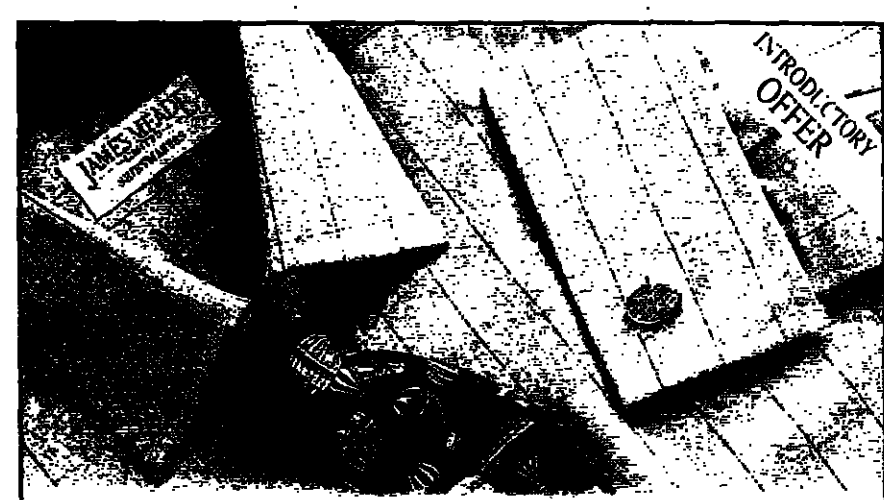
The 1995 plan included a commitment by the previous centre-right French government to have the bank ready for sale by 2000.

Issuing any new financial instruments would require

modification of the "super-dividend" specified in the 1996 plan, which is payable to the state from Credit Lyonnais's profits to help fund the costs of its rescue.

A renewed commitment to a partial sale could form part of an agreement between the French government and Brussels. Negotiators are also expected to stress that Credit Lyonnais has more than met its requirements in the original plan to cut staff numbers and shrink its operations.

Dominique Strauss-Kahn, the French finance, economics and industry minister, has stressed the need for a clear separation between Credit Lyonnais, which is now profitable, and CDR, the vehicle set up to sell off nearly FF200bn in gross assets removed from the bank's balance sheet.



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COMPANIES AND FINANCE: UK

Financial restructuring after cashflow from former MoD homes failed to meet loan interest

Annington Homes to issue £1bn bonds

By Simon Davies and Norma Cohen

Annington Homes is preparing to issue £1bn of bonds to restructure its finances this week, after initial cashflow from the former Ministry of Defence homes was insufficient to pay interest on its existing loans.

Annington, which was formed by Nomura International and fellow investors, Blackrock Capital Finance and Electra Fleming, acquired 57,000 properties from the MoD for £1.7bn in November 1996. It subsequently issued £500m of secured bonds, backed by the cashflow from property leases, to the government.

The company had planned to sell about 1,000 property units a year that were surplus to MoD requirements, but it has struggled to meet aggressive sales and costs targets. As a result, it passed on the latest interest payment on a £500m cumulative subordinated loan note.

The loan notes include warrants convertible into



Aldershot married quarters: some of the 57,000 homes that were surplus to MoD requirements and sold for £1.7bn in 1996

Annington equity. Nomura's difficulties are understood to have stemmed from delays in assembling a professional property team to manage the acquisition, and subsequent departures of key staff.

Annington's chief executive, Hamish MacKay, is

leaving and Nomura is currently searching for a replacement.

Property investors said the ability to dispose of properties quickly was a key element in extracting the most profit from the deal.

"The average price for

these homes is £28,000, and they offer pretty, good-sized gardens and are very well maintained for houses at that end of the market," said one property executive. "But they have never been in private hands before and are going to need some work."

Also, some of the homes were vandalised following the removal of military police from parts of the estate, and re-sales were delayed by the need for refurbishment.

However, sale prices for refurbished homes are

understood to be higher than expected.

Nomura said the current business performance was within the parameters of its business plan.

Annington plans to sell £500m of floating rate notes and a further £100m of zero coupon bonds. The issue will repay all existing bank debt and subordinated loans, and provide a further £100m for working capital.

The deal will bring down Annington's borrowing costs to around 100 basis points over Libor - saving more than one percentage point on its current arrangements. Annington also plans a swap whereby interest payments on the FRN will be skewed towards the latter part of the bond's life.

This increase in valuations will support the bond issues, which are expected to be rated by Moody's, Duff & Phelps and Fitch IBCA.

Nomura considers the investment sufficiently successful that it is planning to use some of the cash raised for other investments by Annington.

Newton seeks partners to expand fund

By Jane Martinson, Investment Correspondent

Newton Investment Management, one of the few remaining independent fund management companies in the UK, has appointed advisers to find potential joint venture partners in the US and Europe.

Rival investment bankers believe the move could lead to a takeover of the group, which manages £10.3bn.

However, Newton said its preferred option would be to remain independent, but to find international distribution outlets for its products.

John Ellwood, corporate consultant to the group, said: "We like being independent and we would like to remain independent."

Sources close to the deal said any approach on the basis of the joint venture talks would have to be judged on its merits.

Speculation about the future of fund managers has been rife since the £3.1bn proposed merger of Merrill Lynch, the US investment bank, and Mercury Asset Management, the UK's leading pension fund manager.

One corporate financier said: "The deal focused everybody's mind on whether UK groups can remain independent or have to become part of a large group."

Newton appointed DJL Phoenix to search for poten-

tial partners to fill geographical gaps in its mainly UK business. The investment bank has identified several groups, including large banks or mutual fund groups with wide retail distribution links, in continental Europe and the US.

Newton has distribution agreements with groups in South America and India.

About 55m of the funds managed by Newton derive from pension funds, while the rest is divided into retail and private client business.

The group is keen to expand its retail side.

The Royal Bank of Scotland has a 33 per cent stake in Newton, which is not a publicly quoted company.

The deal dates back to Newton's takeover of Capital House, RBS's asset management arm.

Stewart Newton, who founded the company 20 years ago, also holds between 30 and 40 per cent of the group, while the rest of the company is owned by employees.

Newton suffered two years of bad performance and was forced to close its doors to new clients to cope with its rapid growth between 1992-94.

It reorganised last year and Mr Newton stood down as chief executive to concentrate on investment management.

Since then performance has picked up.

Telewest takeover talks suggest US West interest

By Chris Gresser

US West, the telecommunications and media group, is thought to have held informal and preliminary talks with Telewest Communications, the UK cable company in which it holds a 27 per cent stake, about a full takeover.

Telewest, Britain's second largest cable company, is still officially in discussions with a rival cable company, NTL. If those talks are successful, they could lead to a merger. But growing doubts over their outcome may have prompted US West to reconsider its position.

US West also holds a stake in One-2-One, the mobile phone company which it co-owns with Cable & Wireless.

This gives US West a relationship with Britain's other principal cable force: Cable & Wireless Communications, itself the result of a merger of UK cable groups.

A move by US West would no doubt be welcomed by Telewest's other main shareholders, SBC and Cox Communications. The cable company was floated three years ago at 182p a share and closed on Friday at 73p.

US West's soundings come at a critical time for the cable industry in the UK.

British Sky Broadcasting, which supplies movies and sports to the cable industry as well as competing against it for subscribers, has recently raised the stakes by introducing a new discount telephone service. Cable

companies have typically claimed that their disappointing performance in cable television is offset by the inroads they have made in the telecoms market.

Cable companies have also struggled to establish an alternative source of programming outside BSkyB. This may be changing as two months ago Telewest and three other cable companies signed a pay per view deal with a Hollywood studio.

Some analysts are now declaring themselves more bullish on the sector, pointing out that many of the companies have built a significant amount of their networks and are therefore able to dedicate more resources to marketing.

Nomura looks for Angel Trains bid to top £400m

By Chris Gresser

Bids go in this week for Angel Train Contracts, the rolling stock leasing company put up for sale by Nomura, the Japanese investment bank.

It is understood that one of the bids has been pitched at between £300m and £400m, but Nomura is thought to be pushing for a higher figure. A deal is expected to be concluded within weeks.

Three potential bidders have made it to the shortlist. They are thought to include Royal Bank of Scotland, GE Capital of the US, and GATX, a US leasing group, in collaboration with a NatWest subsidiary, Lombard.

Angel was privatised for £672m and is the last of the three rolling stock leasing companies to be put up for sale by its original owners.

It made an operating profit of £125.7m last year on turnover of £291m. But the company has informed bidders it expects profits to rise to £147m in the year to March 1998 on turnover of £288m. Angel is owned 85 per cent by Nomura with the rest held by Babcock Brown, a leasing group, and Priddy Associates, its management.

It is thought that the GATX/Lombard bid is the only one to include rail expertise. In addition to rail leasing, GATX is also the fourth largest independent aircraft lessor in the world.

The successful bidder will have to take responsibility for some of the long term maintenance of the rolling stock. The final price which Angel commands will probably not match the amounts raised for the sales of Porterbrook and Eversholt, the two other rolling stock leasing companies because more of Angel's cashflows are not available to a buyer because they have been securitised by Nomura.

The Angel price could also be depressed by the threat of increased regulation. John Prescott, deputy prime minister, is understood to be planning to tighten his grip on the rail industry through direct regulation of the rolling stock leasing companies.

Bosnian medical demand targeted

By Peter Marsh

A consortium of UK companies has been formed to bid for orders for re-equipping hospitals in Bosnia.

Grants and loans from the World Bank and the European Commission are expected to lead to funds of £50m a year for reconstructing hospitals devastated in the civil war in former Yugoslavia.

The consortium - to be called Remedica Medical Equipment - has been assembled by Brandon Medical, a small Leeds-based maker of hospital lighting, which set up a team to pursue the idea two years ago.

The consortium also includes Smiths Industries and BOC, and will be formed in conjunction with Remedica, a Sarajevo-based company headed by Erduan Jazic, a local businessman.

The group plans to export items such as operating theatres and sterilising equipment and to set up a centre in Sarajevo to train engineers and technicians for 14 Bosnian hospitals earmarked for funding.

Other British members of the consortium include Hunteleigh, which makes hospital beds and diagnostic equipment, and BMM Weston, which makes steam autoclaves for sterilisation. BOC and Smiths Industries are getting involved through subsidiaries making anaesthetic equipment and operating tables.

The first products to be installed in Bosnia by the consortium include lighting and beds for operating theatres, to be supplied by Brandon and Smiths in a £250,000 contract funded by the World Bank.

Graeme Hall, managing director of Brandon, said he had high hopes that a large part of the equipment in the hospital revival programme could be supplied by UK companies.

The plan has been masterminded by Adrian Hall, operations director of the family-owned Brandon, and Graeme Hall's brother. His duties in recent weeks have included riding around Bosnia in an armoured car scouting for potential orders in war damaged hospitals.

Yule to bid £245m for Holliday

By Chris Gresser

Yule Catto, the chemicals group, is expected to table an agreed offer for its rival Holliday Chemical at around £240m a share. This would value the company at around £245m.

Holliday Chemicals shares closed at 238½p.

The announcement is expected this week.

Holliday's chairman and founder, Michael Peagram, is expected to make a £40m plus fortune from the takeover. He is also the largest shareholder of the company, which floated four years ago.

Earlier this month, Holliday

Chemical said it was in discussions which could lead to an offer being made for the company. The news reflected growing interest in the specialty chemicals business, with Allied Colloids facing a hostile bid from US group Hercules.

Holliday produces a range of products, including pharmaceutical intermediates, pigments, dyes, chrome chemicals and inks.

Yule Catto is a leading producer of specialty chemicals and building products.

In 1996 the company reported pre-tax profits of £26.5m on turnover of £281m.

Standard acts to tighten bank's Chinese controls

By James Harding and Simon Davies

Standard Chartered Bank has had to tighten internal controls in its operations in China and Macao, following cases of malpractice that led to dismissals and legal proceedings.

The London-based bank's Shanghai branch, one of the few foreign banks licensed this year by the Chinese government to operate in local currency, is still pursuing a case of alleged fraud, which resulted in the loss of \$5.3m (£3.3m) in 1994.

A senior executive at the branch transferred the money to a rural branch of the Industrial and Commercial Bank of China, one of the four large state-owned banks in China, and Standard Chartered has since been unable to trace the money.

More recently, several senior Standard Chartered officials in Macao were replaced after what one bank executive called "a lapse in standard reporting procedures".

The problems in China have been kept quiet for the past three years. Standard Chartered has since substantially revamped its compliance systems, following significant management changes. However, the bank is understood to be pursuing the money through the Chinese courts. ICBC has denied all knowledge of the transaction.

However, at the time this had been emerged, the bank was reeling from substantial losses in India, a bribery investigation at its Mocatia bullion arm, and compliance irregularities in its Hong Kong-based securities business.

Standard Chartered was in the first wave of international financial institutions given the right to lend in Chinese currency, a licence which is only granted to banks with three consecutive years of profit.

Standard Chartered does not release financial figures for its branches in China, but it is understood that the mainland China operations generated trading profit of more than \$10.2m last year. However, back in 1994, it is likely that recognition of this \$5m loan loss would have knocked the China division into the red.

Other international banking groups are understood to be tightening internal business structures in China, where a troubled banking sector and inexperienced personnel are only slowly emerging from the years of central planning.

So far, nine foreign banks have been licensed to lend in yuan, but another 11 licences are understood to be under consideration.

Herbal drugs gain US support

By Roger Taylor

The US Food and Drug Administration has given the go-ahead in principle for the development of drugs from traditional herbal remedies.

Phytopharm, the UK biotechnology group which specialises in these "botanicals", has been granted permission to start clinical trials of a treatment cream for eczema made from twelve plants, even though it is unable to explain how it works.

The regulators usually

require drug companies to identify the active ingredient in any product and explain how it operates. This has been seen as a barrier to the authorisation of botanicals, because the chemical make-up and mode of operation are usually unknown.

Phytopharm, which has links with companies in India, Indonesia and South Africa, has a number of botanical products under development, including a drug for arthritis developed from turmeric and a new treatment for Alzheimer's disease which has shown

strong results in early trials.

The decision of the US Food and Drug Administration to grant an investigational new drug licence (IND) to Zephyrpharm means that they have accepted in principle that, if production is closely controlled and the drugs can be shown to work, they are prepared to license them as medicines.

The UK authorities indicated earlier this year that they too will, in principle, agree to license botanical drugs.

Richard Dixey, chief executive of Phytopharm, said the decision was an important breakthrough for the company and for the development of botanical products in general. The company would have eight products going into clinical trials next year and had received interest from several large pharmaceutical groups wanting to license them. Last week, the company announced a loss of £3.06m for the year to August 31. It has cash resources of more than £8m and hopes to generate income from licensing deals next year.

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FLEMING FLAGSHIP SERIES II

Service d'Investissement à Capital Variable
Eurobank Bank & Business Centre
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R.C. Luxembourg No. B 39 232

The Shareholders of Fleming Flagship Series II ("the Company") are hereby convened to an

Extraordinary General Meeting

to be held on Wednesday, 17 December 1997 at 2.00 p.m. (Luxembourg time) at the registered office of the Company or at any adjournment thereof for the purpose of voting on the amendments to the Articles of Incorporation as set out in the following agenda:

- To amend in Article 3, the first paragraph so as to read:
"The exclusive object of the Company is to place the funds available to it in transferable securities and other permitted assets of any kind with the purpose of spreading investment risks and affording its shareholders the results of the management of its portfolio."
- To amend, inter alia, Articles 5, 6, 10, 11, 14, 16, 17, 20, 21, 22, 23, and 26, such amendments relating mainly to the following matters:
 - to permit the board of directors to create, within each class of shares, sub-classes with different characteristics;
 - to allow charging for the issue of bearer share certificates;
 - to increase the maximum period for the payment of redemption proceeds from seven to ten business days;
 - to permit liquidation of classes and sub-classes, merger of classes and sub-classes and merger of classes with other investment funds upon decision of the shareholders and in certain circumstances upon decision of the board of directors;
 - to provide that 24th December will not be considered as a Dealing Day;
 - to permit the board of directors to manage two or more classes of shares on a pooled basis and to specify the rules applicable to such pooling technique;
 - to permit the board of directors to determine the minimum amount of dividends to be distributed.

A complete version of the above amendments is available upon request at the registered office of the Company in Luxembourg.

Decisions on the agenda require a 50% quorum of presence of the shares in issue. Decisions will be validly adopted if voted in favour by a two thirds majority of the shares present or represented. A shareholder entitled to attend and vote at the meeting may appoint a proxy to attend and vote on his behalf and such proxy need not be a shareholder of the Company. Holders of bearer shares who wish to attend the meeting must deposit their bearer share certificates five business days prior to the meeting with:

- Kreditbank S.A., Luxembourg, 45, boulevard Royal, L-2555 Luxembourg, or
- Banco Commerciale Italiana S.p.A., Corso di Porta Nuova 7, I-20121 Milano, or
- Creditanstalt-Bankverein Aktiengesellschaft, Schottengasse 6, A-1010 Wien, or
- BIF-BANK Aktiengesellschaft, Bockenheimer Landstraße 10, D-60523 Frankfurt/Main, or
- Banco Exterior de España, Casotello Internacional, Via de los Pósitos, E-28045 Madrid

Shareholders who cannot personally attend the meeting are requested to use the prescribed form of proxy (available at the registered office of the Company) and return it at least five business days prior to the date of the Extraordinary General Meeting to the Company c/o Fleming Fund Management (Luxembourg) S.A., L-2888 Luxembourg.

The Board of Directors, November 1997

FLEMINGS

Lehman Brothers Holdings PLC

ITL 150,000,000,000
Floating Rate Notes due 2001

NOTICE IS HEREBY GIVEN that for the interest period 5th December, 1997 to 5th March, 1998 the Rate of Interest has been fixed at 6.44531% per annum. The interest accruing for such three month period will be ITL 80,566 per ITL 5,000,000 Note and ITL 805,664 per ITL 50,000,000 Note against presentation of coupon No. 5.

The First National Bank of Chicago
Agent Bank

ARGENTINA SUPPORT FOR ENTERPRISE RESTRUCTURING (SER) LOAN N° 989/OC-AR
PROCEDURES FOR THE SELECTION AND EMPLOYMENT OF MANAGEMENT SERVICES CONTRACTORS (MSCs)
To get further information, please refer to the advertisement "Development Business" on November 30; "The Economist" corresponding to the week December 6 to 12 and "Clarín" and "La Nación" of Buenos Aires dated December 1.
<http://www.meccon.ar/csgpre>

City of Uppsala
US\$110,000,000
Floating rate notes 1998
The notes will bear interest at 5.125% per annum from 8 December 1997 to 8 June 1998. Interest payable on 8 June 1998 will amount to US\$309.65 per US\$100,000 note.
Agent: Morgan Guaranty Trust Company
JPMorgan

Letuni International Investments NV (MTN)
US\$275,000,000 Guaranteed Floating Rate Notes 2004
The interest rate applicable to the above Notes in respect of the interest period commencing 8th December 1997 has been fixed at 6.0625% per annum. The interest amounting to US\$306.49 per US\$10,000 principal amount of the Notes will be paid on 8th June 1998.
Bank Leumi (UK) Plc
Principal Payment Agent

First Bangkok City Bank Public Company Limited
US\$200,000,000
Floating Rate Certificates of Deposit due 2002
Interest Period: 8th December, 1997 to 8th June, 1998
(BID) 6.0625% p.a.
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(BID) 6.0625% p.a.
Payment Date: 8th June, 1998
Agent Bank: SAKURA FINANCE ASIA LIMITED

T.I.M. (LUXEMBOURG) S.A.
US\$ 20,000,000 FRN DUE 1998
In accordance with the provisions of the above mentioned Notes, notice is hereby given as follows:
- Interest period: December 8, 1997 to June 8, 1998 (182 days)
- Interest payment date: June 8, 1998
- Interest rate: 6.4875% per annum
- Coupon amount payable per Bond of US\$ 100,000: US\$ 3,279.79
Agent Bank
BANQUE INTERNATIONALE A LUXEMBOURG

COMPANIES AND FINANCE

Blackstone brokers \$275m IBM lease

By William Lewis in New York

Blackstone Group, the US investment institution, will today announce it has concluded one of the largest commercial leasing agreements ever in France as part of its strategy to expand its international property interests. Descartes Défense V, a Blackstone affiliate, has

negotiated a new long-term \$275m lease to house the European headquarters of International Business Machines at the Descartes Tower in the office tower complex known as La Défense in Paris.

The move is part of Blackstone's plan to export the strategy it has been employing in the US of acquiring properties in central business districts to

Europe and other international cities "where the type of recovery we have experienced in the US market has not yet fully matured", said Thomas Saylak, Blackstone's senior managing director. Blackstone owns about \$4bn of property assets including IBM's regional headquarters building in Chicago and Arundel Court, a property in central

London which houses of the Descartes Tower from Compagnie Générale des Eaux in July.

However, in an unusual deal for the French property market, Blackstone has now renegotiated the lease to run through to 2009 without the opportunity for termination. In France, commercial tenants normally have the right to terminate leases every three or six years.

French property experts said the deal was one of the most significant in recent years for the French property market.

"This is the largest leasing transaction of its type this year, and is undoubtedly the largest of such commercial leases in French real estate history," said Abraham de Koning, partner at Bourdais, a French real estate company.

Swedbank criticised over share trading

By Tim Burt in Stockholm

The Stockholm stock exchange will this week reprimand Swedbank Markets, the broking arm of one of Sweden's largest banks, over alleged share price manipulation involving some of the country's most heavily traded stocks.

Swedbank is likely to face criticism over trading activity in Volvo, Astra, Ericsson and Sparbanken, whose shares rose suddenly after the bank spent about SKr50m (\$6.4m) in a last-minute buying spree on November 13.

A three-week investigation by the exchange is understood to have concluded that Swedbank breached market regulations in buying up

stock to reduce its risk on a new index-linked bond. The pricing of the bond, known as Svenska Klassiker, was directly related to the performance of shares in Volvo, Astra, Ericsson and Sparbanken.

At the time, Swedbank admitted it had acted incorrectly but claimed it was amenable.

While reprimanding Swedbank, exchange officials have decided not to refer the case to the stock exchange board, which has the power to expel members.

The criticism is also expected to fall short of recommending the withdrawal of authorisation to place buying orders.

The investigation was launched after intervention

from Swedbank helped lift Volvo's B shares from SKr197.50 to SKr205; Ericsson B shares rose from SKr317 to SKr321; Astra's most commonly traded A shares gained SKr4 to close at SKr128; and Sparbanken - the domestic arm of Swedbank - jumped from SKr176.50 to SKr185.

Swedbank reiterated that it had not engaged in price manipulation.

Hakan Källaker, head of Swedbank Markets, said: "It was an exercise that went wrong. But our own internal investigation has shown it was an error, not a deliberate act." He added that the bank had co-operated fully with the inquiry and had provided full details of its activities.

Groups close in on unit of Yamaichi

By Bethan Hurton in Tokyo

Société Générale de France and Sumitomo Bank of Japan are close to agreement on buying an asset management subsidiary of Yamaichi Securities, Japan's fourth largest broker which collapsed two weeks ago.

The two companies are reported to have agreed in principle each to buy slightly under half the shares of Yamaichi International Capital Management. Japan's fifth largest fund management company.

The unit is owned by Yamaichi Securities and four other Yamaichi group companies, and has assets under management of about ¥2,500bn (\$19.2bn). One of the four, Yamaichi Investment Trust, is expected to maintain a stake in Yamaichi International Capital Management.

The unit is one of the most attractive parts of the Yamaichi group as the opportunities for independent fund managers in Japan's pension market are expanding. DLJ Phoenix, the London-based corporate finance advisory company advising on the sale of Yamaichi's assets, had earlier hoped to sell all of Yamaichi's assets to a single buyer, but this is seen as unlikely by independent observers.

Officials from Japan's Securities and Exchange Surveillance Commission at the weekend started questioning two former senior officials of Yamaichi Securities over alleged illegal deals involving the transfer of loss-making securities.

After Yamaichi's collapse last month, it was found to have concealed losses of about ¥265bn by repeated transfers of assets, a practice known in Japan as "tobashi". The deals happened in the early 1990s, when Tetsuo Yukihiro and Aisuo Miki - the two men being questioned - were respectively president and vice-president of the company.

Brewers target new areas

By John Wilman, Consumer Industries Editor

Brewing groups in emerging markets are poised to cash in on the increase in beer consumption worldwide, according to a report from Flemings, the UK investment bank.

Emerging markets already consume more than half the world's beer, the report says. But with beer sales stagnant in developed countries, all the growth globally is now in Asia, Africa, Latin America and eastern Europe.

Rising incomes and deregulation of markets are boosting consumption among young consumers in such countries, for whom beer is rapidly becoming the preferred alcoholic drink.

Some of the large international brewing groups have entered emerging markets - mostly through exports or joint ventures. But it is the local brewers in such countries that are best-placed to benefit, the report says.

It identifies Castle, produced by South African Breweries, as the fastest-growing beer brand among the top 20 internationally. Sales grew 17 per cent a year

Top 10 global brewers, 1996

Company	Country	Million hectolitres
Arbeus-Bisch	US	110.7
Heineken	Netherlands	70.6
Miller Brewing Co.	US	62.8
South African Breweries	South Africa	38.8
Compañía Cervecerías Unidas	Chile	38.3
Interbrew	Belgium	34.0
Carlsberg	Denmark	32.3
Kirin Breweries	Japan	32.2
Kaiser Brewing Group	Australia	27.3
Coors Brewing Co.	US	27.2

Source: Companies

Between 1990 and 1996.

The South African group controls 98 per cent of its home market, but has rapidly expanded into the rest of southern and east Africa. It has also entered several eastern European markets to become the world's fourth largest brewer.

Companhia Cervejaria Brahma, the Brazilian drinks group, is now the world's fifth-largest brewer and one of the three most profitable in emerging markets in profit per hectolitre. With half of the enormous Brazilian beer market, it has expanded into Argentina and Venezuela.

Grupo Modelo de Mexico,

which brews Corona, is the most successful exporter in the emerging markets, the report says. Exports account for 14 per cent of production and 21 per cent of sales.

Joint ventures with brewers in emerging economies have allowed western brewers to enter protected markets. Carlsberg of Denmark and Guinness of the UK share 95 per cent of the Malaysian beer market through two competing ventures which have the highest profit per hectolitre among the brewers in the report.

Only Heineken, the world's second-largest, can claim to be close to having a truly global brand, it says.

Fuji Bank tries to reassure US investors

By Gillian Tett in Tokyo

Kazuhiko Kasai, Fuji Bank's deputy president, flew to New York at the weekend to convince US investors that Fuji, one of Japan's biggest banks, was sound.

Fuji's share price has plunged: at yesterday's level of ¥642 it is around a third of its summer peak. "We are very unhappy indeed about this," complained Mr Kasai. The reason for the plunge is clear: at yesterday's level of ¥642 it is around a third of its summer peak. "We are very unhappy indeed about this," complained Mr Kasai.

Fuji denies this, and insists it will not abandon the group. Fuji had refused to inject money to save Yamaichi, a former ally - and argues that the collapse of Yamaichi has only left it with up to ¥20bn (\$153.7m) of losses on its ¥89bn exposure to the Yamaichi group. This is tiny compared with the bank's officially published ¥1,800bn bad loans

(of which some ¥600bn will be disposed of this year, according to the bank's forecasts).

But Yasuda Trust Bank is a close, historical ally: both were founding members of the "Yasuda" company group. There is also a business motive: officials at Fuji believe Yasuda's custody and fund management operations could fit in well with Fuji's plans to create a universal bank. Consequently, if Yasuda's commercial banking operations are stripped away, synergy could be developed, they argue.

The problem, though, is that Yasuda has huge bad debts - put at around ¥500bn by the company, but estimated by some analysts to be three times higher. Fuji has been reluctant to reveal its total exposure to the group but Mr Kasai says there is no chance of Yasuda failing and so the issue of additional liabilities will not arise.

DFS considers joining Barney's bidding battle

By John Authers in New York

The tangled struggle to control Barney's, the prestigious US department store chain currently under bankruptcy protection, intensified yesterday as DFS, the San Francisco-based global retailer, announced it was considering a bid.

Barney's has already agreed to a \$247m deal to sell 51 per cent to Dickson Concepts, the Hong Kong retail group. Other companies which had expressed an interest in Barney's include Saks Holdings, a rival US department store group which made a cash and stock offer worth \$250m but then withdrew it, and Texas Pacific, an investment partnership.

DFS has already been in discussions with Barney's management, and has held preliminary talks with its creditors' representatives. It stressed it was still considering the issue and had not yet decided to proceed.

Any bid would need to exceed Dickson's offer and would have to be consensual, satisfying all the constituencies involved.

Myron Ullman, DFS chief executive, said yesterday: "The acquisition of Barney's would be consistent with our on-going strategy to broaden DFS's base as an upscale global retailer. Barney's - with flagship stores in New York, Beverly Hills and Chicago - is one of America's premier fashion retailers and would be a natural extension of our strategy."

DFS, which is majority owned by LVMH Moët-Hennessy Louis-Vuitton, the French luxury goods group, is best known for its duty-free and general merchandise concessions in leading airports in Asia-Pacific.

A formal bid from DFS is unlikely within a few days because of the complex issues involved. It is likely an offer would be made by January 20, in line with the timetable set by the bankruptcy authorities.

INTERNATIONAL NEWS DIGEST

News Corp close to Israeli tax solution

News Corporation, the media and entertainment group headed by Rupert Murdoch, appears close to settling its \$150m tax dispute with Israeli tax officials.

In October 1996 Israeli tax officials raided the offices of a subsidiary of News Corp as part of its probe into suspected tax evasion. However, Arthur Siskind, the company's general counsel, was yesterday quoted in the Washington Post stating that News Corp "is very close to resolving this. The settlement will be small, and it will be done for its nuisance value." He added that News Corp hoped to pay a settlement "in the low seven figures" to end the matter.

The raid by Israeli tax officials followed an investigation by the Financial Times into the tax structure operated at News Datacom, a News Corporation company involved in the supply of "smart cards" to subscribers of BskyB, the satellite broadcaster part owned by News Corp.

BONDS

Argentina launches novel offer

Argentina this week aims to launch a five-year \$300m bond offering with a novel variable interest rate spread structure determined by an annual auction.

If market conditions permit the offer to go ahead, it will allow Argentina to complete its 1997 borrowing programme, of which about \$125m is outstanding. The balance will be placed in an escrow account and used to begin prefinancing 1998's needs, said Miguel Kiguel, finance undersecretary.

Argentina has been facing sharply higher borrowing costs as a result of international financial turmoil since late October. The country aims to raise about \$80m in fresh financing from the international markets next year, and \$50m domestically.

Mr Kiguel denied that modifying the spread over US five-year Treasury bills every year through an auction process involved a gamble on the future progress of interest rates.

WHARF HOLDINGS

Court orders interest on damages

Wharf Holdings, the Hong Kong conglomerate, has been found in contempt of court in the US and ordered to pay double the rate of interest, or 6 per cent, on an award of HK\$970m in damages in a case involving its cable television operation. Wharf described the ruling as "unfortunate and subject to reversal" and expressed confidence that its appeal would be upheld.

The case concerns claims that Wharf gave an oral agreement that United International Holdings of the US would be able to buy a 10 per cent stake in its cable TV subsidiary. In April, a Denver court awarded damages to UIH after deciding that Wharf had backed away from an original agreement.

John Ridding, Hong Kong

BRAZIL

Bank sale attains 55% premium

The Brazilian government has sold a 75.6 per cent stake in Banco Meridional, based in the southern state of Rio Grande do Sul, for R\$266.7m, a premium of 55 per cent to the minimum price. Banco Banesa Simoeson of Rio de Janeiro bought the bank at auction against rival bids from Caixa Geral de Depósito de Portugal.

Jonathan Wheatley, São Paulo

GERMAN IPO

Presses group valued at DM5.3bn

Shares in Heidelberger Druckmaschinen, the German company which is the world's biggest maker of printing presses, are to be listed on the Frankfurt stock exchange today after the company set a price for its initial public offering.

The shares have been priced at DM96 each, almost at the top of the indicative range of DM82 to DM97, and valuing Heidelberger at DM5.3bn. The company said its IPO of 8.2m shares, representing about 15 per cent of its share capital, was more than eight times subscribed.

Following the IPO, Heidelberger will be owned 57 per cent by Lohmeyer, a quoted company controlled by the utility RWE, 24 per cent by Almuco, which is owned by German financial groups, and 0.75 per cent by family shareholders. The remainder represents the free float resulting from the new issue.

Vincent Boland

REINSURANCE

Munich Re, Allianz in link talks

Munich Re, the world's largest reinsurer, is holding talks with Allianz, the big German insurer, over a possible exchange of shareholdings in the two companies' domestic and US activities.

This would mainly be a tidying up operation following their expansions in the US and Munich Re's decision to step up its business in direct insurance in competition with Allianz. Mr Hans-Jürgen Schindler, chairman, told Munich Re's annual meeting on Friday that the discussions included Allianz's 10 per cent stake in Ergo, the newly established direct insurance subsidiary of Munich Re.

Andrew Fisher, Frankfurt

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السؤال الأول

Nice to meet you!



For us, the name of the game is phenol, acetone and α -methylstyrene – in fact, we're the biggest supplier worldwide. Phenolchemie GmbH & Co. KG, based in Gladbeck, Germany, brings together the activities of the Hüls Group in these business areas. We've been a separate company – market-oriented and flexible in meeting customer needs – since 1954. Our aim? To enhance our flagship position in the marketplace. Backed by our parent, Hüls AG,

the chemicals subsidiary of VEBA, we've worked systematically to build a firm foundation for our future: a committed team of 600 people, a strong position as a technology leader and a solid turnover topping DM 1 billion. In addition to our expertise in the

business, we can draw on the financial resources offered by the Hüls Group of high-performance companies. All told, excellent conditions for global success.



 **PHENOLCHEMIE**
A Hüls Group Company

BM lease
NATIONAL NEWS DIGEST
ws Corp close to
eli tax solution
tina launches novel offer
orders interest on damage
attains 55 premium
group valued at DM5.3b
Re. Allianz link talks
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INTERNATIONAL BONDS By Nikki Tait

Sydney mulls its electronic futures

Line graph showing the percentage of the population aged 65 and over in 1987 for the UK, Germany, France, Italy, Spain, and the US. The Y-axis represents the percentage (5.0 to 8.0). The X-axis represents the year (1987). The UK shows the highest percentage, starting around 7.5% and ending around 6.5%. Germany, France, Italy, Spain, and the US are clustered lower, between 3.5% and 6.5%.

Country	1987 (approx. %)
UK	7.5
Germany	6.5
France	6.0
Italy	5.5
Spain	5.0
US	4.5

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.00	0.50	2.50	3.30	6.25	7.25
Overnight	n/a	n/a	5.55	5.55	6.25	n/a
Three month	6.25	0.20	3.68	3.48	6.00	7.45
One year	5.55	0.40	3.99	3.51	5.25	7.35
Five year	5.85	1.08	5.04	4.35	5.42	6.77
					5.85	8.55

(1) From inventory rate. (2) 10% Base rate. \$

meanwhile, presents a separate set of problems. Essentially, the new electronic exchange will use an upgraded version of the SFE's existing "Sycom" system, which allows traders to place orders overnight, when the pits are closed.

The software will be based on Microsoft's Windows operating system and will not require special hardware.

But a decision on how to handle the transition has yet to be taken. Mr Hosking sees three possibilities:

- phasing out pit-based trading product-by-product
- using different time



Local. "he points out already traded on Syconco although he admits that their "emotional" resistance may persist for longer. Certainly, the SF executive admits that they have been few cries of joy date: "I'm not the most popular bloke on the floor on the exchange," he says ruefully.

NEW INTERNATIONAL BOND ISSUES

[illegible]

A collage of financial documents. At the top left is a 'RECEIVED' stamp from 'THE FINANCIAL TIMES'. Below it are several overlapping forms, including one labeled 'SURRENDER KIT' and another with 'FINANCIAL TIMES' branding. The background is dark and textured.

- **UK taxation** - advice on tax planning
- **National Insurance** - your liabilities and entitlements
- **Offshore banking and investment** - where to invest your money
- **UK property** - what to do with your house
- **Pension planning** - options for your retirement
- **Employment packages** - checking your remuneration package
- **Education** - schooling options and school fee planning
- **Arriving overseas** - coping with culture shock, embassy services & local legal requirements
- **Useful addresses and further reading**



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• _____

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NOTICE TO HOLDERS OF BEARER DEPOSITARY RECEIPTS IN

Hitchiti Limited
BOR holders are interested in a company with record date March 31, 1997. The cash dividend payable is Yen 5.5 per common stock, Yen 50.00 per share. BOR holders are interested in a company with a good reputation for the undermentioned agents:
1. Payment of the dividend with a 15% withholding tax for the undermentioned agents.
2. Rental of residence in a country having a tax treaty or agreement with Japan giving benefits for the undermentioned agents. (The rental income of the country is not taxed based on the rate of 20% of the gross dividend payable. The full rate of 20% is applied to any dividend payable.)

BOR	Gross	Dividend Payable	Dividend Payable
Danmark	547.68	less 10% withholding tax	less 10% withholding tax
1,000 shares		492.91	443.66

Depository: Citibank, N.A.
306 Street
London WC2N 1LB

Agents: Citibank
(Luxembourg) S.A.
21 Avenue Royale Thirss
Luxembourg

December 8, 1997

CONTRACTS & TENDERS

**MINISTRY OF FINANCE OF THE REPUBLIC OF LATVIA
INVITES TO INTERNATIONAL TENDER FOR THE RIGHT
FOR THE PROVISION OF PUBLIC PROCUREMENT**

1. The Excise tax stamp for alcohol - hologram (production and

- 2 The Excise tax stamp for tobacco products - on falsification-safe paper with security elements worked into it and a hologram (production and supply).

Bids are to be submitted as of December 8, 1997 to February 16, 1998 by 14.00. The participation fee is 500 LVL for one tender item (for two items - 800 LVL). The Tender Regulations are available at the Ministry

of Finance of the Republic of Latvia, 1 Smilšu Street, Room No. 448,
Riga. Contact phone: + (371) 722 5987, fax: (371) 782 0010.

150

COMAC INTERNATIONAL N.V.

**NOTICE OF AN ANNUAL GENERAL MEETING
OF SHAREHOLDERS
TO BE HELD ON DECEMBER 17, 1997
TO THE SHAREHOLDERS OF COMAC INTERNATIONAL N.Y.**

The Agenda of the meeting is available for inspection by the shareholders at the principal office of the Company.

CUBAÇAO CORPORATION COMPANY N.V.
Managing Director

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Cost: \$450/US\$765 Published: June 1997

— *Chlorophyll a* (mg/g dry weight) = 12.72 (OD₆₈₀) + 0.0001 (OD₆₈₀)² - 0.0001 (OD₆₈₀)³ - 0.0001 (OD₆₈₀)⁴ - 0.0001 (OD₆₈₀)⁵ - 0.0001 (OD₆₈₀)⁶ - 0.0001 (OD₆₈₀)⁷ - 0.0001 (OD₆₈₀)⁸ - 0.0001 (OD₆₈₀)⁹ - 0.0001 (OD₆₈₀)¹⁰ - 0.0001 (OD₆₈₀)¹¹ - 0.0001 (OD₆₈₀)¹² - 0.0001 (OD₆₈₀)¹³ - 0.0001 (OD₆₈₀)¹⁴ - 0.0001 (OD₆₈₀)¹⁵ - 0.0001 (OD₆₈₀)¹⁶ - 0.0001 (OD₆₈₀)¹⁷ - 0.0001 (OD₆₈₀)¹⁸ - 0.0001 (OD₆₈₀)¹⁹ - 0.0001 (OD₆₈₀)²⁰ - 0.0001 (OD₆₈₀)²¹ - 0.0001 (OD₆₈₀)²² - 0.0001 (OD₆₈₀)²³ - 0.0001 (OD₆₈₀)²⁴ - 0.0001 (OD₆₈₀)²⁵ - 0.0001 (OD₆₈₀)²⁶ - 0.0001 (OD₆₈₀)²⁷ - 0.0001 (OD₆₈₀)²⁸ - 0.0001 (OD₆₈₀)²⁹ - 0.0001 (OD₆₈₀)³⁰ - 0.0001 (OD₆₈₀)³¹ - 0.0001 (OD₆₈₀)³² - 0.0001 (OD₆₈₀)³³ - 0.0001 (OD₆₈₀)³⁴ - 0.0001 (OD₆₈₀)³⁵ - 0.0001 (OD₆₈₀)³⁶ - 0.0001 (OD₆₈₀)³⁷ - 0.0001 (OD₆₈₀)³⁸ - 0.0001 (OD₆₈₀)³⁹ - 0.0001 (OD₆₈₀)⁴⁰ - 0.0001 (OD₆₈₀)⁴¹ - 0.0001 (OD₆₈₀)⁴² - 0.0001 (OD₆₈₀)⁴³ - 0.0001 (OD₆₈₀)⁴⁴ - 0.0001 (OD₆₈₀)⁴⁵ - 0.0001 (OD₆₈₀)⁴⁶ - 0.0001 (OD₆₈₀)⁴⁷ - 0.0001 (OD₆₈₀)⁴⁸ - 0.0001 (OD₆₈₀)⁴⁹ - 0.0001 (OD₆₈₀)⁵⁰ - 0.0001 (OD₆₈₀)⁵¹ - 0.0001 (OD₆₈₀)⁵² - 0.0001 (OD₆₈₀)⁵³ - 0.0001 (OD₆₈₀)⁵⁴ - 0.0001 (OD₆₈₀)⁵⁵ - 0.0001 (OD₆₈₀)⁵⁶ - 0.0001 (OD₆₈₀)⁵⁷ - 0.0001 (OD₆₈₀)⁵⁸ - 0.0001 (OD₆₈₀)⁵⁹ - 0.0001 (OD₆₈₀)⁶⁰ - 0.0001 (OD₆₈₀)⁶¹ - 0.0001 (OD₆₈₀)⁶² - 0.0001 (OD₆₈₀)⁶³ - 0.0001 (OD₆₈₀)⁶⁴ - 0.0001 (OD₆₈₀)⁶⁵ - 0.0001 (OD₆₈₀)⁶⁶ - 0.0001 (OD₆₈₀)⁶⁷ - 0.0001 (OD₆₈₀)⁶⁸ - 0.0001 (OD₆₈₀)⁶⁹ - 0.0001 (OD₆₈₀)⁷⁰ - 0.0001 (OD₆₈₀)⁷¹ - 0.0001 (OD₆₈₀)⁷² - 0.0001 (OD₆₈₀)⁷³ - 0.0001 (OD₆₈₀)⁷⁴ - 0.0001 (OD₆₈₀)⁷⁵ - 0.0001 (OD₆₈₀)⁷⁶ - 0.0001 (OD₆₈₀)⁷⁷ - 0.0001 (OD₆₈₀)⁷⁸ - 0.0001 (OD₆₈₀)⁷⁹ - 0.0001 (OD₆₈₀)⁸⁰ - 0.0001 (OD₆₈₀)⁸¹ - 0.0001 (OD₆₈₀)⁸² - 0.0001 (OD₆₈₀)⁸³ - 0.0001 (OD₆₈₀)⁸⁴ - 0.0001 (OD₆₈₀)⁸⁵ - 0.0001 (OD₆₈₀)⁸⁶ - 0.0001 (OD₆₈₀)⁸⁷ - 0.0001 (OD₆₈₀)⁸⁸ - 0.0001 (OD₆₈₀)⁸⁹ - 0.0001 (OD₆₈₀)⁹⁰ - 0.0001 (OD₆₈₀)⁹¹ - 0.0001 (OD₆₈₀)⁹² - 0.0001 (OD₆₈₀)⁹³ - 0.0001 (OD₆₈₀)⁹⁴ - 0.0001 (OD₆₈₀)⁹⁵ - 0.0001 (OD₆₈₀)⁹⁶ - 0.0001 (OD₆₈₀)⁹⁷ - 0.0001 (OD₆₈₀)⁹⁸ - 0.0001 (OD₆₈₀)⁹⁹ - 0.0001 (OD₆₈₀)¹⁰⁰ - 0.0001 (OD₆₈₀)¹⁰¹ - 0.0001 (OD₆₈₀)¹⁰² - 0.0001 (OD₆₈₀)¹⁰³ - 0.0001 (OD₆₈₀)¹⁰⁴ - 0.0001 (OD₆₈₀)¹⁰⁵ - 0.0001 (OD₆₈₀)¹⁰⁶ - 0.0001 (OD₆₈₀)¹⁰⁷ - 0.0001 (OD₆₈₀)¹⁰⁸ - 0.0001 (OD₆₈₀)¹⁰⁹ - 0.0001 (OD₆₈₀)¹¹⁰ - 0.0001 (OD₆₈₀)¹¹¹ - 0.0001 (OD₆₈₀)¹¹² - 0.0001 (OD₆₈₀)¹¹³ - 0.0001 (OD₆₈₀)¹¹⁴ - 0.0001 (OD₆₈₀)¹¹⁵ - 0.0001 (OD₆₈₀)¹¹⁶ - 0.0001 (OD₆₈₀)¹¹⁷ - 0.0001 (OD₆₈₀)¹¹⁸ - 0.0001 (OD₆₈₀)¹¹⁹ - 0.0001 (OD₆₈₀)¹²⁰ - 0.0001 (OD₆₈₀)¹²¹ - 0.0001 (OD₆₈₀)¹²² - 0.0001 (OD₆₈₀)¹²³ - 0.0001 (OD₆₈₀)¹²⁴ - 0.0001 (OD₆₈₀)¹²⁵ - 0.0001 (OD₆₈₀)¹²⁶ - 0.0001 (OD₆₈₀)¹²⁷ - 0.0001 (OD₆₈₀)¹²⁸ - 0.0001 (OD₆₈₀)¹²⁹ - 0.0001 (OD₆₈₀)¹³⁰ - 0.0001 (OD₆₈₀)¹³¹ - 0.0001 (OD₆₈₀)¹³² - 0.0001 (OD₆₈₀)¹³³ - 0.0001 (OD₆₈₀)¹³⁴ - 0.0001 (OD₆₈₀)¹³⁵ - 0.0001 (OD₆₈₀)¹³⁶ - 0.0001 (OD₆₈₀)¹³⁷ - 0.0001 (OD₆₈₀)¹³⁸ - 0.0001 (OD₆₈₀)¹³⁹ - 0.0001 (OD₆₈₀)¹⁴⁰ - 0.0001 (OD₆₈₀)¹⁴¹ - 0.0001 (OD₆₈₀)¹⁴² - 0.0001 (OD₆₈₀)¹⁴³ - 0.0001 (OD₆₈₀)¹⁴⁴ - 0.0001 (OD₆₈₀)¹⁴⁵ - 0.0001 (OD₆₈₀)¹⁴⁶ - 0.0001 (OD₆₈₀)¹⁴⁷ - 0.0001 (OD₆₈₀)¹⁴⁸ - 0.0001 (OD₆₈₀)¹⁴⁹ - 0.0001 (OD₆₈₀)<

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Dec 5	Closing	Change	High	Low	Day's Mid	Rate	One month	Three months	One year	JP Morgan
Europe										
Australia	(A\$)	20.7882	-0.0087	20.785	20.792	20.787	3.8	20.882	20.988	3.4
Belgium	(Bfr)	0.0000	-0.0000	0.0000	0.0000	0.0000	4.2	0.0000	0.0000	3.5
Canada	(C\$)	11.2478	-0.0000	11.2478	11.2478	11.2478	3.8	11.2478	11.2478	3.1
Denmark	(DKr)	6.5596	-0.0000	6.5596	6.5596	6.5596	4.5	6.5596	6.5596	3.1
France	(FFr)	166.6343	-0.0000	166.6343	166.6343	166.6343	4.5	166.6343	166.6343	3.1
Germany	(DM)	2.3336	-0.0000	2.3336	2.3336	2.3336	3.8	2.3336	2.3336	3.5
Greece	(Dr)	340.7500	-0.0000	340.7500	340.7500	340.7500	4.5	340.7500	340.7500	3.1
India	(Rs)	47.8125	-0.0000	47.8125	47.8125	47.8125	4.5	47.8125	47.8125	3.1
Italy	(Lira)	2002.90	-0.0000	2002.90	2002.90	2002.90	4.5	2002.90	2002.90	3.1
Japan	(Yen)	160.9375	-0.0000	160.9375	160.9375	160.9375	4.5	160.9375	160.9375	3.1
South Korea	(Won)	200.0000	-0.0000	200.0000	200.0000	200.0000	4.5	200.0000	200.0000	3.1
Spain	(Pta)	166.6343	-0.0000	166.6343	166.6343	166.6343	4.5	166.6343	166.6343	3.1
Sweden	(Krona)	10.4600	-0.0000	10.4600	10.4600	10.4600	4.5	10.4600	10.4600	3.1
Switzerland	(Fr)	1.6663	-0.0000	1.6663	1.6663	1.6663	4.5	1.6663	1.6663	3.1
UK	(Sterling)	1.0000	-0.0000	1.0000	1.0000	1.0000	4.5	1.0000	1.0000	3.1
US	(Dollar)	1.5460	-0.0000	1.5460	1.5460	1.5460	4.5	1.5460	1.5460	3.1

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 5	Closing	Change	High	Low	Day's Mid	Rate	One month	Three months	One year	JP Morgan
Europe										
Australia	(A\$)	1.5460	-0.0000	1.5460	1.5460	1.5460	4.5	1.5460	1.5460	3.1
Belgium	(Bfr)	0.0000	-0.0000	0.0000	0.0000	0.0000	4.2	0.0000	0.0000	3.5
Canada	(C\$)	0.7500	-0.0000	0.7500	0.7500	0.7500	3.8	0.7500	0.7500	3.1
Denmark	(DKr)	0.1366	-0.0000	0.1366	0.1366	0.1366	4.5	0.1366	0.1366	3.1
France	(FFr)	6.5596	-0.0000	6.5596	6.5596	6.5596	4.5	6.5596	6.5596	3.1
Germany	(DM)	0.4936	-0.0000	0.4936	0.4936	0.4936	3.8	0.4936	0.4936	3.5
Greece	(Dr)	200.0000	-0.0000	200.0000	200.0000	200.0000	4.5	200.0000	200.0000	3.1
India	(Rs)	47.8125	-0.0000	47.8125	47.8125	47.8125	4.5	47.8125	47.8125	3.1
Italy	(Lira)	2002.90	-0.0000	2002.90	2002.90	2002.90	4.5	2002.90	2002.90	3.1
Japan	(Yen)	160.9375	-0.0000	160.9375	160.9375	160.9375	4.5	160.9375	160.9375	3.1
South Korea	(Won)	200.0000	-0.0000	200.0000	200.0000	200.0000	4.5	200.0000	200.0000	3.1
Spain	(Pta)	166.6343	-0.0000	166.6343	166.6343	166.6343	4.5	166.6343	166.6343	3.1
Sweden	(Krona)	10.4600	-0.0000	10.4600	10.4600	10.4600	4.5	10.4600	10.4600	3.1
Switzerland	(Fr)	1.6663	-0.0000	1.6663	1.6663	1.6663	4.5	1.6663	1.6663	3.1
UK	(Sterling)	0.6913	-0.0000	0.6913	0.6913	0.6913	4.5	0.6913	0.6913	3.1
US	(Dollar)	1.0000	-0.0000	1.0000	1.0000	1.0000	4.5	1.0000	1.0000	3.1

WORLD INTEREST RATES

Dec 5	One month	Three months	Six months	One year	Long term	Repo rate
Belgium	3.5	3.5	3.5	3.5	5.00	2.75
France	3.5	3.5	3.5	3.5	4.00	2.75
Germany	3.5	3.5	3.5	3.5	4.00	2.75
Italy	3.5	3.5	3.5	3.5	4.00	2.75
Japan	3.5	3.5	3.5	3.5	4.00	2.75
UK	3.5	3.5	3.5	3.5	4.00	2.75
US	3.5	3.5	3.5	3.5	4.00	2.75

Dec 5	Closing	Change	High	Low	Day's Mid	Rate	One month	Three months	One year	JP Morgan
Europe										
Australia	(A\$)	1.5460	-0.0000	1.5460	1.5460	1.5460	4.5	1.5460	1.5460	3.1
Belgium	(Bfr)	0.0000	-0.0000	0.0000	0.0000	0.0000	4.2	0.0000	0.0000	3.5
Canada	(C\$)	0.7500	-0.0000	0.7500	0.7500	0.7500	3.8	0.7500	0.7500	3.1
Denmark	(DKr)	0.1366	-0.0000	0.1366	0.1366	0.1366	4.5	0.1366	0.1366	3.1
France	(FFr)	6.5596	-0.0000	6.5596	6.5596	6.5596	4.5	6.5596	6.5596	3.1
Germany	(DM)	0.4936	-0.0000	0.4936	0.4936	0.4936	3.8	0.4936	0.4936	3.5
Greece	(Dr)	200.0000	-0.0000	200.0000	200.0000	200.0000	4.5	200.0000	200.0000	3.1
India	(Rs)	47.8125	-0.0000	47.8125	47.8125	47.8125	4.5	47.8125	47.8125	3.1
Italy	(Lira)	2002.90	-0.0000	2002.90	2002.90	2002.90	4.5	2002.90	2002.90	3.1
Japan	(Yen)	160.9375	-0.0000	160.9375	160.9375	160.9375	4.5	160.9375	160.9375	3.1
South Korea	(Won)	200.0000	-0.0000	200.0000	200.0000	200.0000	4.5	200.0000	200.0000	3.1
Spain	(Pta)	166.6343	-0.0000	166.6343	166.6343	166.6343	4.5	166.6343	166.6343	3.1
Sweden	(Krona)	10.4600	-0.0000	10.4600	10.4600	10.4600	4.5	10.4600	10.4600	3.1
Switzerland	(Fr)	1.6663	-0.0000	1.6663	1.6663	1.6663	4.5	1.6663	1.6663	3.1
UK	(Sterling)	0.6913	-0.0000	0.6913	0.6913	0.6913	4.5	0.6913	0.6913	3.1
US	(Dollar)	1.0000	-0.0000	1.0000	1.0000	1.0000	4.5	1.0000	1.0000	3.1

Dec 5	Closing	Change	High	Low	Day's Mid	Rate	One month	Three months	One year	JP Morgan
Europe										
Australia	(A\$)	1.5460	-0.0000	1.5460	1.5460	1.5460	4.5	1.5460	1.5460	3.1
Belgium	(Bfr)	0.0000	-0.0000	0.0000	0.0000	0.0000	4.2	0.0000	0.0000	3.5
Canada	(C\$)	0.7500	-0.0000	0.7500	0.7500	0.7500	3.8	0.7500	0.7500	3.1
Denmark	(DKr)	0.1366	-0.0000	0.1366	0.1366	0.1366	4.5	0.1366	0.1366	3.1
France	(FFr)	6.5596	-0.0000	6.5596	6.5596	6.5596	4.5	6.5596	6.5596	3.1
Germany	(DM)	0.4936	-0.0000	0.4936	0.4936	0.4936	3.8	0.4936	0.4936	3.5
Greece	(Dr)	200.0000	-0.0000	200.0000	200.0000	200.0000	4.5	200.0000	200.0000	3.1
India	(Rs)	47.8125	-0.0000	47.8125	47.8125	47.8125	4.5	47.8125	47.8125	3.1
Italy	(Lira)	2002.90	-0.0000	2002.90	2002.90	2002.90	4.5	2002.90	2002.90	3.1
Japan	(Yen)	160.9375	-0.0000	160.9375	160.9375	160.9375	4.5	160.9375	160.9375	3.1
South Korea	(Won)	200.0000	-0.0000	200.0000	200.0000	200.0000	4.5	200.0000	200.0000	3.1
Spain	(Pta)	166.6343	-0.0000	166.6343	166.6343	166.6343	4.5	166.6343	166.6343	3.1
Sweden	(Krona)	10.4600	-0.0000	10.4600	10.4600	10.4600	4.5	10.4600	10.4600	3.1
Switzerland	(Fr)	1.6663	-0.0000	1.6663	1.6663	1.6663	4.5	1.6663	1.6663	3.1
UK	(Sterling)	0.6913	-0.0000	0.6913	0.6913	0.6913	4.5	0.6913	0.6913	3.1
US	(Dollar)	1.0000	-0.0000	1.0000	1.0000	1.0000	4.5	1.0000	1.0000	3.1

Dec 5	One month	Three months	Six months	One year	Long term	Repo rate
Belgium	3.5	3.5	3.5	3.5	5.00	2.75
France	3.5	3.5	3.5	3.5	4.00	2.75
Germany	3.5	3.5	3.5	3.5	4.00	2.75
Italy	3.5	3.5	3.5	3.5	4.00	2.75
Japan	3.5	3.5	3.5	3.5	4.00	2.75
UK	3.5	3.5	3.5	3.5	4.00	2.75
US	3.5	3.5	3.5	3.5	4.00	2.75

Dec 5	Closing	Change	High	Low	Day's Mid	Rate	One month	Three months	One year	JP Morgan
Europe										
Australia	(A\$)	1.5460	-0.0000	1.5460	1.5460	1.5460	4.5	1.5460	1.5460	3.1
Belgium	(Bfr)	0.0000	-0.0000	0.0000	0.0000	0.0000	4.2	0.0000	0.0000	3.5
Canada	(C\$)	0.7500	-0.0000	0.7500	0.7500	0.7500	3.8	0.7500	0.7500	3.1
Denmark	(DKr)	0.1366	-0.0000	0.1366	0.1366	0.1366	4.5	0.1366	0.1366	3.1
France	(FFr)	6.5596	-0.0000	6.5596	6.5596	6.5596	4.5	6.5596	6.5596	3.1
Germany	(DM)	0.4936	-0.0000	0.4936	0.4936	0.4936	3.8	0.4936	0.4936	3.5
Greece	(Dr)	200.0000	-0.0000	200.0000	200.0000	200.0000	4.5	200.0000	200.0000	3.1
India	(Rs)	47.8125	-0.0000	47.8125	47.8125	47.8125	4.5	47.8125	47.8125	3.1
Italy	(Lira)	2002.90	-0.0000	2002.90	2002.90	2002.90	4.5	2002.90	2002.90	3.1
Japan	(Yen)	160.9375	-0.0000	160.9375	160.9375	160.9375	4.5	160.9375	160.9375	3.1
South Korea	(Won)	200.0000	-0.0000	200.0000	200.0000	200.0000	4.5	200.0000	200.0000	3.1
Spain	(Pta)	166.6343	-0.0000	166.6343	166.6343	166.6343	4.5	166.6343	166.6343	3.1
Sweden	(Krona)	10.4600	-0.0000	10.4600	10.4600	10.4600	4.5	10.4600	10.4600	3.1
Switzerland	(Fr)	1.6663	-0.0000	1.6663	1.6663	1.6663	4.5	1.6663	1.6663	3.1
UK	(Sterling)	0.6913	-0.0000	0.6913	0.6913	0.6913	4.5	0.6913	0.6913	3.1
US	(Dollar)	1.0000	-0.0000	1.0000	1.0000	1.0000	4.5	1.0000	1.0000	3.1

UK INTEREST RATES										
LONDON MONEY RATES										
	CS	Y	Res	Dec 5	Over- night	7 days	One month	Three months	Six months	One year
42	3.870	3.731	354.1	2.448						
43	3.870	3.731	354.1	2.448						
12	3.384	3.676	218.1	1.508						
39	0.786	0.561	72.99	0.505						
81	2.076	1.468	189.9	1.513						
83	0.061	0.057	7.49	0.052						
90	0.708	0.489	64.77	0.448						
96	3.970	3.385	180.2	1.246						
98	0.781	0.549	71.48	0.494						
01	0.945	0.684	68.45	0.588						
03	1.817	1.277	185.2	0.599						
09	0.988	0.825	90.39	0.825						
19	2.356	1.657	215.6	1.490						
24	1	0.703	91.49	0.633						
26	1.422	1.179	130.1	0.800						
27	1.581	0.982	116.9	0.621						
31	1.581	1.132	144.6	1						
UK clearing bank base lending rate 7½ per cent from Nov 6, 1987										
					Up to 1 month	1-3 months	3-6 months	6-9 months	9-12 months	
					2½	5½	5½	5½	6½	
Gerts of Year dep. (€100,000) = 5½ pps. Deposits withdrawn for each 1½ pps.										
Base lending rate of clearing bank 1987 = 10000 base rate 5½ pps. Export Finance										
Base rate of Nov 28, 1987. Agreed rate for period Dec 28, 1987 to Jan 28, 1988. Scheme is B.R.B.C.										
Base rate of Nov 28, 1987. Agreed rate for period Dec 28, 1987 to Jan 28, 1988. Scheme is B.R.B.C.										
Base rate of Nov 28, 1987. Agreed rate for period Dec 28, 1987 to Jan 28, 1988. Scheme is B.R.B.C.										
Base rate of Nov 28, 1987. Agreed rate for period Dec 28, 1987 to Jan 28, 1988. Scheme is B.R.B.C.										

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WORLD STOCK MARKETS

Highs & Lows shown on a 52 week basis

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INTERNATIONAL AND TUESDAY DECEMBER 2 1987 THURSDAY DECEMBER 4 1987 DOLLAR INDEX

REGIONAL MARKETS Figures in parentheses show number of firms listed	FRIDAY, FEBRUARY 27, 1992										THURSDAY, FEBRUARY 26, 1992																					
	US Dollar		Hong Kong		Singapore		Yen		DM		Local Currency		Local % Chg from 1/21/92		Dow Jones		US Dollar		Pound Sterling		Yen		DM		Local Currency		12 week % High		52 week % Low		Year ago (1991)	
	\$	12/12/91	\$	12/12/91	S	12/12/91	¥	12/12/91	DM	12/12/91	Index	12/12/91	%	12/12/91	12/12/91	12/12/91	\$	12/12/91	£	12/12/91	¥	12/12/91	DM	12/12/91	Index	12/12/91	%	12/12/91	%	12/12/91	12/12/91	
Australia (74)	200.16	-6.8	178.12	164.84	185.52	198.39	8.8	3.80	200.27	177.20	163.78	194.28	198.14	343.87	19.07	219.16																
Canada (22)	186.85	0.0	190.88	163.24	176.05	175.09	16.8	1.88	181.98	166.49	158.68	178.21	178.23	173.24	178.14	185.79																
Denmark (27)	257.03	12.8	290.01	217.41	235.23	259.96	10.8	1.08	261.78	240.18	228.18	241.21	241.21	221.21	241.21																	
France (30)	299.78	24.8	308.82	251.22	265.22	308.82	12.8	1.28	308.82	281.22	265.22	281.22	281.22	265.22	281.22																	
Germany (32)	359.78	15.2	362.78	308.78	325.78	359.78	12.8	1.28	359.78	332.78	315.78	332.78	332.78	315.78	332.78																	
Holland (28)	492.58	22.8	492.58	355.58	407.71	492.58	12.8	1.28	492.58	465.58	438.58	465.58	465.58	438.58	465.58																	
Japan (28)	295.04	20.1	294.03	242.58	273.45	295.04	12.8	1.28	295.04	268.04	241.04	268.04	268.04	241.04	268.04																	
Sweden (28)	234.27	8.4	234.27	198.27	215.27	234.27	12.8	1.28	234.27	207.27	190.27	207.27	207.27	190.27	207.27																	
Switzerland (28)	225.28	22.8	225.28	185.28	202.28	225.28	12.8	1.28	225.28	202.28	185.28	202.28	202.28	185.28	202.28																	
Taiwan (28)	225.28	22.8	225.28	185.28	202.28	225.28	12.8	1.28	225.28	202.28	185.28	202.28	202.28	185.28	202.28																	
Thailand (28)	225.28	22.8	225.28	185.28	202.28	225.28	12.8	1.28	225.28	202.28	185.28	202.28	202.28	185.28	202.28																	
United Kingdom (28)	225.28	22.8	225.28	185.28	202.28	225.28	12.8	1.28	225.28	202.28	185.28	202.28	202.28	185.28	202.28																	
USA (28)	400.70	21.9	355.58	295.59	371.39	398.39	12.8	1.28	400.70	373.70	346.70	373.70	373.70	346.70	373.70																	
Australia (74)	200.16	-6.8	178.12	164.84	185.52	198.39	8.8	3.80	200.27	177.20	163.78	194.28	198.14	343.87	19.07	219.16																
Canada (22)	186.85	0.0	190.88	163.24	176.05	175.09	16.8	1.88	181.98	166.49	158.68	178.21	178.23	173.24	178.14	185.79																
Denmark (27)	257.03	12.8	290.01	217.41	235.23	259.96	10.8	1.08	261.78	240.18	228.18	241.21	241.21	221.21	241.21																	
France (30)	299.78	24.8	308.82	251.22	265.22	308.82	12.8	1.28	308.82	281.22	265.22	281.22	281.22	265.22	281.22																	
Germany (32)	359.78	15.2	362.78	308.78	325.78	359.78	12.8	1.28	359.78	332.78	315.78	332.78	332.78	315.78	332.78																	
Holland (28)	492.58	22.8	492.58	355.58	407.71	492.58	12.8	1.28	492.58	465.58	438.58	465.58	465.58	438.58	465.58																	
Japan (28)	295.04	20.1	294.03	242.58	273.45	295.04	12.8	1.28	295.04	268.04	241.04	268.04	268.04	241.04	268.04																	
Sweden (28)	234.27	8.4	234.27	198.27	215.27	234.27	12.8	1.28	234.27	207.27	190.27	207.27	207.27	190.27	207.27																	
Switzerland (28)	225.28	22.8	225.28	185.28	202.28	225.28	12.8	1.28	225.28	202.28	185.28	202.28	202.28	185.28	202.28																	
Taiwan (28)	225.28	22.8	225.28	185.28	202.28	225.28	12.8	1.28	225.28	202.28	185.28	202.28	202.28	185.28	202.28																	
Thailand (28)	225.28	22.8	225.28	185.28	202.28	225.28	12.8	1.28	225.28	202.28	185.28	202.28	202.28	185.28	202.28																	
United Kingdom (28)	225.28	22.8	225.28	185.28	202.28	225.28	12.8	1.28	225.28	202.28	185.28	202.28	202.28	185.28	202.28																	
USA (28)	400.70	21.9	355.58	295.59	371.39	398.39	12.8	1.28	400.70	373.70	346.70	373.70	373.70	346.70	373.70																	
Australia (74)	200.16	-6.8	178.12	164.84	185.52	198.39	8.8	3.80	200.27	177.20	163.78	194.28	198.14	343.87	19.07	219.16																
Canada (22)	186.85	0.0	190.88	163.24	176.05	175.09	16.8	1.88	181.98	166.49	158.68	178.21	178.23	173.24	178.14	185.79																
Denmark (27)	257.03	12.8	290.01	217.41	235.23	259.96	10.8	1.08	261.78	240.18	228.18	241.21	241.21	221.21	241.21																	
France (30)	299.78	24.8	308.82	251.22	265.22	308.82	12.8	1.28	308.82	281.22	265.22	281.22	281.22	265.22	281.22																	
Germany (32)	359.78	15.2	362.78	308.78	325.78	359.78	12.8	1.28	359.78	332.78	315.78	332.78	332.78	315.78	332.78																	
Holland (28)	492.58	22.8	492.58	355.58	407.71	492.58	12.8	1.28	492.58	465.58	438.58	465.58	465.58	438.58	465.58																	
Japan (28)	295.04	20.1	294.03	242.58	273.45	295.04	12.8	1.28	295.04	268.04	241.04	268.04	268.04	241.04	268.04																	
Sweden (28)	234.27	8.4	234.27	198.27	215.27	234.27	12.8	1.28	234.27	207.27	190.27	207.27	207.27	190.27	207.27																	
Switzerland (28)	225.28	22.8	225.28	185.28	202.28	225.28	12.8	1.28	225.28	202.28	185.28	202.28	202.28	185.28	202.28																	
Taiwan (28)	225.28	22.8	225.28	185.28	202.28	225.28	12.8	1.28	225.28	202.28	185.28	202.28	202.28	185.28	202.28																	
Thailand (28)	225.28	22.8	225.28	185.28	202.28	225.28	12.8	1.28	225.28	202.28	185.28	202.28	202.28	185.28	202.28																	
United Kingdom (28)	225.28	22.8	225.28	185.28	202.28	225.28	12.8	1.28	225.28	202.28	185.28	202.28	202.28	185.28	202.28																	
USA (28)	400.70	21.9	355.58	295.59	371.39	398.39	12.8	1.28	400.70	373.70	346.70	373.70	373.70	346.70	373.70																	
Australia (74)	200.16	-6.8	178.12	164.84	185.52	198.39	8.8	3.80	200.27	177.20	163.78	194.28	198.14	343.87	19.07	219.16																
Canada (22)	186.85	0.0	190.88	163.24	176.05	175.09	16.8	1.88	181.98	166.49	158.68	178.21	178.23	173.24	178.14	185.79																
Denmark (27)	257.03	12.8	290.01	217.41	235.23	259.96	10.8	1.08	261.78	240.18	228.18	241.21	241.21	221.21	241.21																	
France (30)	299.78	24.8	308.82	251.22	265.22	308.82	12.8	1.28	308.82	281.22	265.22	281.22	281.22	265.22	281.22																	
Germany (32)	359.78	15.2	362.78	308.78	325.78	359.78	12.8	1.28	359.78	332.78	315.78	332.78	332.78	315.78	332.78																	
Holland (28)	492.58	22.8	492.58	355.58	407.71	492.58	12.8	1.28	492.58	465.58	438.58	465.58	465.58	438.58	465.58																	
Japan (28)	295.04	20.1	294.03	242.58	273.45	295.04	12.8	1.28	295.04	268.04	241.04	268.04	268.04	241.04	268.04																	
Sweden (28)	234.27	8.4	234.27	198.27	215.27	234.27	12.8	1.28	234.27	207.27	190.27	207.27	207.27	190.27	207.27																	
Switzerland (28)	225.28	22.8	225.28	185.28	202.28	225.28	12.8	1.28	225.28	202.28	185.28	202.28	202.28	185.28	202.28																	
Taiwan (28)	225.28	22.8	225.28	185.28	202.28	225.28	12.8	1.28	225.28	202.28	185.28	202.28	202.28	185.28	202.28																	

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Emerging markets: FC investable indices

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405	2406	2407	2408	2409	2410	2411	2412	2413	2414
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[illegible]

U.S. \$/2000-1990			U.S. \$/2000-1990			U.S. \$/2000-1990			U.S. \$/2000-1990			U.S. \$/2000-1990			U.S. \$/2000-1990			U.S. \$/2000-1990					
Latin America	1,130.87	-1.5	-18.9	Latin America	1,130.87	-1.5	-18.9	Latin America	1,130.87	-1.5	-18.9	Latin America	1,130.87	-1.5	-18.9	Latin America	1,130.87	-1.5	-18.9	Latin America	1,130.87	-1.5	-18.9
Brazil	480.00	-0.0	-21.1	Brazil	480.00	-0.0	-21.1	Brazil	480.00	-0.0	-21.1	Brazil	480.00	-0.0	-21.1	Brazil	480.00	-0.0	-21.1	Brazil	480.00	-0.0	-21.1
Colombia	899.88	-0.6	-17.7	Colombia	899.88	-0.6	-17.7	Colombia	899.88	-0.6	-17.7	Colombia	899.88	-0.6	-17.7	Colombia	899.88	-0.6	-17.7	Colombia	899.88	-0.6	-17.7
Costa Rica	926.47	-0.2	-22.7	Costa Rica	926.47	-0.2	-22.7	Costa Rica	926.47	-0.2	-22.7	Costa Rica	926.47	-0.2	-22.7	Costa Rica	926.47	-0.2	-22.7	Costa Rica	926.47	-0.2	-22.7
Cuba	785.03	-0.8	-44.4	Cuba	785.03	-0.8	-44.4	Cuba	785.03	-0.8	-44.4	Cuba	785.03	-0.8	-44.4	Cuba	785.03	-0.8	-44.4	Cuba	785.03	-0.8	-44.4
Peru	223.98	-0.4	-3.5	Peru	223.98	-0.4	-3.5	Peru	223.98	-0.4	-3.5	Peru	223.98	-0.4	-3.5	Peru	223.98	-0.4	-3.5	Peru	223.98	-0.4	-3.5
Venezuela	919.94	-1.8	-59.0	Venezuela	919.94	-1.8	-59.0	Venezuela	919.94	-1.8	-59.0	Venezuela	919.94	-1.8	-59.0	Venezuela	919.94	-1.8	-59.0	Venezuela	919.94	-1.8	-59.0
North Asia				North Asia				North Asia				North Asia			North Asia				North Asia				
China	36.07	-0.2	-18.0	China	36.07	-0.2	-18.0	China	36.07	-0.2	-18.0	China	36.07	-0.2	-18.0	China	36.07	-0.2	-18.0	China	36.07	-0.2	-18.0
Hong Kong	58.93	-0.7	-10.0	Hong Kong	58.93	-0.7	-10.0	Hong Kong	58.93	-0.7	-10.0	Hong Kong	58.93	-0.7	-10.0	Hong Kong	58.93	-0.7	-10.0	Hong Kong	58.93	-0.7	-10.0
Philippines	124.04	-0.2	-27.3	Philippines	124.04	-0.2	-27.3	Philippines	124.04	-0.2	-27.3	Philippines	124.04	-0.2	-27.3	Philippines	124.04	-0.2	-27.3	Philippines	124.04	-0.2	-27.3
Thailand	145.37	-0.5	-3.3	Thailand	145.37	-0.5	-3.3	Thailand	145.37	-0.5	-3.3	Thailand	145.37	-0.5	-3.3	Thailand	145.37	-0.5	-3.3	Thailand	145.37	-0.5	-3.3
South Asia				South Asia				South Asia				South Asia			South Asia				South Asia				
India	61.87	-0.3	-42.9	India	61.87	-0.3	-42.9	India	61.87	-0.3	-42.9	India	61.87	-0.3	-42.9	India	61.87	-0.3	-42.9	India	61.87	-0.3	-42.9
Indonesia	47.76	-3.1	-32.6	Indonesia	47.76	-3.1	-32.6	Indonesia	47.76	-3.1	-32.6	Indonesia	47.76	-3.1	-32.6	Indonesia	47.76	-3.1	-32.6	Indonesia	47.76	-3.1	-32.6
Japan	10.00	-0.0	-0.0	Japan	10.00	-0.0	-0.0	Japan	10.00	-0.0	-0.0	Japan	10.00	-0.0	-0.0	Japan	10.00	-0.0	-0.0	Japan	10.00	-0.0	-0.0
Malaysia	558.38	-1.7	-32.1	Malaysia	558.38	-1.7	-32.1	Malaysia	558.38	-1.7	-32.1	Malaysia	558.38	-1.7	-32.1	Malaysia	558.38	-1.7	-32.1	Malaysia	558.38	-1.7	-32.1
N. Korea	108.13	-0.2	-14.2	N. Korea	108.13	-0.2	-14.2	N. Korea	108.13	-0.2	-14.2	N. Korea	108.13	-0.2	-14.2	N. Korea	108.13	-0.2	-14.2	N. Korea	108.13	-0.2	-14.2
South Korea	57.48	-3.2	-74.0	South Korea	57.48	-3.2	-74.0	South Korea	57.48	-3.2	-74.0	South Korea	57.48	-3.2	-74.0	South Korea	57.48	-3.2	-74.0	South Korea	57.48	-3.2	-74.0
Central Asia				Central Asia				Central Asia				Central Asia			Central Asia				Central Asia				
Czech Rep	51.42	-0.5	-36.7	Czech Rep	51.42	-0.5	-36.7	Czech Rep	51.42	-0.5	-36.7	Czech Rep	51.42	-0.5	-36.7	Czech Rep	51.42	-0.5	-36.7	Czech Rep	51.42	-0.5	-36.7
Egypt	612.88	-0.7	-40.1	Egypt	612.88	-0.7	-40.1	Egypt	612.88	-0.7	-40.1	Egypt	612.88	-0.7	-40.1	Egypt	612.88	-0.7	-40.1	Egypt	612.88	-0.7	-40.1
France	279.59	-0.3	-11.0	France	279.59	-0.3	-11.0	France	279.59	-0.3	-11.0	France	279.59	-0.3	-11.0	France	279.59	-0.3	-11.0	France	279.59	-0.3	-11.0
Germany	578.20	-0.7	-41.9	Germany	578.20	-0.7	-41.9	Germany	578.20	-0.7	-41.9	Germany	578.20	-0.7	-41.9	Germany	578.20	-0.7	-41.9	Germany	578.20	-0.7	-41.9
Italy	121.81	-0.1	-21.8	Italy	121.81	-0.1	-21.8	Italy	121.81	-0.1	-21.8	Italy	121.81	-0.1	-21.8	Italy	121.81	-0.1	-21.8	Italy	121.81	-0.1	-21.8
Japan	2515.67	-0.7	-18.7	Japan	2515.67	-0.7	-18.7	Japan	2515.67	-0.7	-18.7	Japan	2515.67	-0.7	-18.7	Japan	2515.67	-0.7	-18.7	Japan	2515.67	-0.7	-18.7
Mexico	132.00	-0.1	-62.0	Mexico	132.00	-0.1	-62.0	Mexico	132.00	-0.1	-62.0	Mexico	132.00	-0.1	-62.0	Mexico	132.00	-0.1	-62.0	Mexico	132.00	-0.1	-62.0
Norway	298.02	-0.8	-18.2	Norway	298.02	-0.8	-18.2	Norway	298.02	-0.8	-18.2	Norway	298.02	-0.8	-18.2	Norway	298.02	-0.8	-18.2	Norway	298.02	-0.8	-18.2
Poland	239.77	-0.7	-16.6	Poland	239.77	-0.7	-16.6	Poland	239.77	-0.7	-16.6	Poland	239.77	-0.7	-16.6	Poland	239.77	-0.7	-16.6	Poland	239.77	-0.7	-16.6
Portugal	54.84	-0.4	-8.4	Portugal	54.84	-0.4	-8.4	Portugal	54.84	-0.4	-8.4	Portugal	54.84	-0.4	-8.4	Portugal	54.84	-0.4	-8.4	Portugal	54.84	-0.4	-8.4
Russia	182.41	-0.6	-12.8	Russia	182.41	-0.6	-12.8	Russia	182.41	-0.6	-12.8	Russia	182.41	-0.6	-12.8	Russia	182.41	-0.6	-12.8	Russia	182.41	-0.6	-12.8
S. Korea	97.92	-1.8	-26.1	S. Korea	97.92	-1.8	-26.1	S. Korea	97.92	-1.8	-26.1	S. Korea	97.92	-1.8	-26.1	S. Korea	97.92	-1.8	-26.1	S. Korea	97.92	-1.8	-26.1
S. Africa	10.00	-0.0	-0.0	S. Africa	10.00	-0.0	-0.0	S. Africa	10.00	-0.0	-0.0	S. Africa	10.00	-0.0	-0.0	S. Africa	10.00	-0.0	-0.0	S. Africa	10.00	-0.0	-0.0
Soviet Union	251.90	-0.6	-26.7	Soviet Union	251.90	-0.6	-26.7	Soviet Union	251.90	-0.6	-26.7	Soviet Union	251.90	-0.6	-26.7	Soviet Union	251.90	-0.6	-26.7	Soviet Union	251.90	-0.6	-26.7
Sri Lanka				Sri Lanka				Sri Lanka				Sri Lanka			Sri Lanka				Sri Lanka				
Taiwan	249.50	-1.5	-15.4	Taiwan	249.50	-1.5	-15.4	Taiwan	249.50	-1.5	-15.4	Taiwan	249.50	-1.5	-15.4	Taiwan	249.50	-1.5	-15.4	Taiwan	249.50	-1.5	-15.4
Thailand	678.80	-0.7	-35.3	Thailand	678.80	-0.7	-35.3	Thailand	678.80	-0.7	-35.3	Thailand	678.80	-0.7	-35.3	Thailand	678.80	-0.7	-35.3	Thailand	678.80	-0.7	-35.3
U.K.	119.17	-0.1	-32.8	U.K.	119.17	-0.1	-32.8	U.K.	119.17	-0.1	-32.8	U.K.	119.17	-0.1	-32.8	U.K.	119.17	-0.1	-32.8	U.K.	119.17	-0.1	-32.8
U.S.	100.00	-1.1	-12.8	U.S.	100.00	-1.1	-12.8	U.S.	100.00	-1.1	-12.8	U.S.	100.00	-1.1	-12.8	U.S.	100.00	-1.1	-12.8	U.S.	100.00	-1.1	-12.8
Other	64.83	-1.1	-12.8	Other	64.83	-1.1	-12.8	Other	64.83	-1.1	-12.8	Other	64.83	-1.1	-12.8	Other	64.83	-1.1	-12.8	Other	64.83	-1.1	-12.8
EUROPE	3,355.33	-0.8	-32.6	EUROPE	3,355.33	-0.8	-32.6	EUROPE	3,355.33	-0.8	-32.6	EUROPE	3,355.33	-0.8	-32.6	EUROPE	3,355.33	-0.8	-32.6	EUROPE	3,355.33	-0.8	-32.6
Asia	1,130.87	-1.5	-18.9	Asia	1,130.87	-1.5	-18.9	Asia	1,130.87	-1.5	-18.9	Asia	1,130.87	-1.5	-18.9	Asia	1,130.87	-1.5	-18.9	Asia	1,130.87	-1.5	-18.9
Latin America	1,130.87	-1.5	-18.9	Latin America	1,130.87	-1.5	-18.9	Latin America	1,130.87	-1.5	-18.9	Latin America	1,130.87	-1.5	-18.9	Latin America	1,130.87	-1.5	-18.9	Latin America	1,130.87	-1.5	-18.9
North America	1,130.87	-1.5	-18.9	North America	1,130.87	-1.5	-18.9	North America	1,130.87	-1.5	-18.9	North America	1,130.87	-1.5	-18.9	North America	1,130.87	-1.5	-18.9	North America	1,130.87	-1.5	-18.9
South America	1,130.87	-1.5	-18.9	South America	1,130.87	-1.5	-18.9	South America	1,130.87	-1.5	-18.9	South America	1,130.87	-1.5	-18.9	South America	1,130.87	-1.5	-18.9	South America	1,130.87	-1.5	-18.9
Other	64.83	-1.1	-12.8	Other	64.83	-1.1	-12.8	Other	64.83	-1.1	-12.8	Other	64.83	-1.1	-12.8	Other	64.83	-1.1	-12.8	Other	64.83	-1.1	-12.8
EUROPE	3,355.33	-0.8	-32.6	EUROPE	3,355.33	-0.8	-32.6	EUROPE	3,355.33	-0.8	-32.6	EUROPE	3,355.33	-0.8	-32.6	EUROPE	3,355.33	-0.8	-32.6	EUROPE	3,355.33	-0.8	-32.6
Asia	1,130.87	-1.5	-18.9	Asia	1,130.87	-1.5	-18.9	Asia	1,130.87	-1.5	-18.9	Asia	1,130.87	-1.5	-18.9	Asia	1,130.87	-1.5	-18.9	Asia	1,130.87	-1.5	-18.9
Latin America	1,130.87	-1.5	-18.9	Latin America	1,130.87	-1.5	-18.9	Latin America	1,130.87	-1.5	-18.9	Latin America	1,130.87	-1.5	-18.9	Latin America	1,130.87	-1.5	-18.9	Latin America	1,130.87	-1.5	-18.9
North America	1,130.87	-1.5	-18.9	North America	1,130.87	-1.5	-18.9	North America	1,130.87	-1.5	-18.9	North America	1,130.87	-1.5	-18.9	North America	1,130.87	-1.5	-18.9	North America	1,130.87	-1.5	-18.9
South America	1,130.87	-1.5	-18.9	South America	1,130.87	-1.5	-18.9	South America	1,130.87	-1.5	-18.9	South America	1,130.87	-1.5	-18.9	South America	1,130.87	-1.5	-18.9	South America	1,130.87	-1.5	-18.9
Other	64.83	-1.1	-12.8	Other	64.83	-1.1	-12.8	Other	64.83	-1.1	-12.8	Other	64.83	-1.1	-12.8	Other	64.83	-1.1	-12.8	Other	64.83	-1.1	-12.8
EUROPE	3,355.33	-0.8	-32.6	EUROPE	3,355.33	-0.8	-32.6	EUROPE	3,355.33	-0.8	-32.6	EUROPE	3,355.33	-0.8	-32.6	EUROPE	3,355.33	-0.8	-32.6	EUROPE	3,355.33	-0.8	-32.6
Asia	1,130.87	-1.5	-18.9	Asia	1,130.87	-1.5	-18.9	Asia	1,130.87	-1.5	-18.9	Asia	1,130.87	-1.5	-18.9	Asia	1,130.87	-1.5	-18.9	Asia	1,130.87	-1.5	-18.9
Latin America	1,130.87	-1.5	-18.9	Latin America	1,130.87	-1.5	-18.9	Latin America	1,130.87	-1.5	-18.9	Latin America	1,130.87	-1.5	-18.9	Latin America	1,130.87	-1.5	-18.9	Latin America	1,130.87	-1.5	-18.9
North America	1,130.87	-1.5	-18.9	North America	1,130.87	-1.5	-18.9	North America	1,130.87	-1.5	-18.9	North America	1,130.87	-1.5	-18.9	North America	1,130.87	-1.5	-18.9	North America	1,130.87	-1.5	-18.9
South America	1,130.87	-1.5	-18.9	South America	1,130.87	-1.5	-18.9	South America	1,130.87	-1.5	-18.9	South America	1,130.87	-1.5	-18.9	South America	1,130.87	-1.5	-18.9	South America	1,130.87	-1.5	-18.9
Other	64.83	-1.1	-12.8	Other	64.83	-1.1	-12.8	Other	64.83	-1.1	-12.8	Other	64.83	-1.1	-12.8	Other	64.83	-1.1	-12.8	Other	64.83	-1.1	-12.8
EUROPE	3,355.33	-0.8	-32.6	EUROPE	3,355.33	-0.8	-32.6	EUROPE	3,355.33	-0.8	-32.6	EUROPE	3,355.33	-0.8	-32.6	EUROPE	3,355.33	-0.8	-32.6	EUROPE	3,35		

ReTels	18.80	+08 22.35	18.20	3.0	13.5	36858	BC Tel	40	40	27	25
Pathways	7.90	+16 8.20	6.70	10.5	10.2	188234	BCE	45.8	+3 46.25	30.8	
Services	8.35	+05 7.47	4.40	3.8	18.1	22108	BCE MO	39.5		62	37

NAS

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FINANCIAL TIMES

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Dec 3	Dec 4	Dec 5	1997	Year	High	Low	Open	Close	Change	Vol
Industrial	8140.12	8020.15	8002.01	8020.15	8020.15	8140.12	8002.01	8020.15	8020.15	-18.14	1,000,000
Home	104.86	104.56	104.12	104.12	104.12	104.86	104.12	104.12	104.12	-0.30	1,000,000
Transport	3315.54	3305.54	3295.54	3295.54	3295.54	3315.54	3295.54	3295.54	3295.54	-10.00	1,000,000
Utilities	259.89	259.29	258.45	258.45	258.45	259.89	258.45	258.45	258.45	-0.44	1,000,000
Standard and Poor's	943.79	937.10	937.10	937.10	937.10	943.79	937.10	937.10	937.10	-6.69	1,000,000
Commodities	1140.07	1125.09	1125.09	1125.09	1125.09	1140.07	1125.09	1125.09	1125.09	-14.98	1,000,000
Financial	120.78	119.81	119.03	119.03	119.03	120.78	119.03	119.03	119.03	-0.75	1,000,000
Others	514.31	509.04	510.15	510.15	510.15	514.31	510.15	510.15	510.15	-5.16	1,000,000
Amex Comp	670.27	665.09	662.10	662.10	662.10	670.27	662.10	662.10	662.10	-5.17	1,000,000
NASDAQ Comp	1633.00	1613.42	1615.13	1615.13	1615.13	1633.00	1615.13	1615.13	1615.13	-19.87	1,000,000
Russell 2000	430.05	429.41	429.81	429.81	429.81	430.05	429.81	429.81	429.81	-0.24	1,000,000

Dec 3	Dec 4	Dec 5	1997	Year	High	Low	Open	Close	Change	Vol
Dow Jones Ind. Div. Yield	1.74	1.73	1.73	1.73	1.74	1.73	1.73	1.73	-0.01	1,000,000
S & P Ind. Div. Yield	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	0.00	1,000,000
S & P Ind. P/E ratio	25.39	25.76	25.39	25.39	25.39	25.39	25.39	25.39	0.00	1,000,000

INDEX FUTURES

S&P 500	Open	Settle	Change	High	Low	Est. Vol	Open Int.
Dec	937.50	938.00	+0.50	938.00	937.50	141,311	323,843
Mar	981.00	981.70	+0.70	981.70	981.00	34,873	85,593
Nickel 2000	Open	Settle	Change	High	Low	Est. Vol	Open Int.
Dec	1640.00	1640.00	+0.00	1640.00	1640.00	34,725	125,727
Mar	1650.00	1650.00	+0.00	1650.00	1650.00	26,519	95,502

WORLD MARKETS AT A GLANCE

Country	Index	Dec 3	Dec 4	Dec 5	1997	Year	High	Low	Open	Close	Change	Vol	P/E
Argentina	Consumer	2254.02	2254.02	2254.02	2254.02	2254.02	2254.02	2254.02	2254.02	2254.02	0.00	1,000,000	1.2
Brazil	Stocks	2557.2	2557.2	2557.2	2557.2	2557.2	2557.2	2557.2	2557.2	2557.2	0.00	1,000,000	1.8
Canada	All Share	5762	5762	5762	5762	5762	5762	5762	5762	5762	0.00	1,000,000	1.5
France	CAC 40	4463	4463	4463	4463	4463	4463	4463	4463	4463	0.00	1,000,000	1.3
Germany	DAX	2557.2	2557.2	2557.2	2557.2	2557.2	2557.2	2557.2	2557.2	2557.2	0.00	1,000,000	1.2
Italy	FTSE 100	4078	4078	4078	4078	4078	4078	4078	4078	4078	0.00	1,000,000	1.5
Japan	Nikkei 225	15715.5	15715.5	15715.5	15715.5	15715.5	15715.5	15715.5	15715.5	15715.5	0.00	1,000,000	1.2
South Africa	JOSE	601.19	601.19	601.19	601.19	601.19	601.19	601.19	601.19	601.19	0.00	1,000,000	1.2
Spain	IBEX 35	3571.5	3571.5	3571.5	3571.5	3571.5	3571.5	3571.5	3571.5	3571.5	0.00	1,000,000	1.2
UK	FTSE 100	4078	4078	4078	4078	4078	4078	4078	4078	4078	0.00	1,000,000	1.5
US	Dow Jones	8140.12	8020.15	8002.01	8020.15	8020.15	8140.12	8002.01	8020.15	8020.15	-18.14	1,000,000	1.2

US DATA

Volume (millions)	Dec 3	Dec 4	Dec 5	1997	Year	High	Low	Open	Close	Change	Vol
NYSE	561,253	537,096	534,074	534,074	534,074	561,253	534,074	534,074	534,074	-27,157	1,000,000
Amex	26,708	31,014	25,300	25,300	25,300	26,708	25,300	25,300	25,300	-1,408	1,000,000
NASDAQ	669,586	702,203	730,808	730,808	730,808	669,586	730,808	730,808	730,808	61,222	1,000,000
NYSE TRADING ACTIVITY	Dec 3	Dec 4	Dec 5	1997	Year	High	Low	Open	Close	Change	Vol
NYSE	561,253	537,096	534,074	534,074	534,074	561,253	534,074	534,074	534,074	-27,157	1,000,000
NYSE STOCKS	Dec 3	Dec 4	Dec 5	1997	Year	High	Low	Open	Close	Change	Vol
NYSE	561,253	537,096	534,074	534,074	534,074	561,253	534,074	534,074	534,074	-27,157	1,000,000
NASDAQ TRADING ACTIVITY	Dec 3	Dec 4	Dec 5	1997	Year	High	Low	Open	Close	Change	Vol
NASDAQ	669,586	702,203	730,808	730,808	730,808	669,586	730,808	730,808	730,808	61,222	1,000,000
NASDAQ STOCKS	Dec 3	Dec 4	Dec 5	1997	Year	High	Low	Open	Close	Change	Vol
NASDAQ	669,586	702,203	730,808	730,808	730,808	669,586	730,808	730,808	730,808	61,222	1,000,000

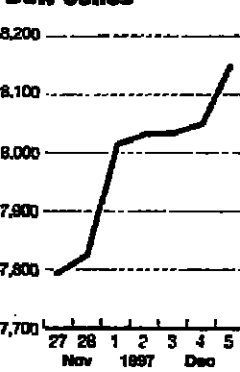
■ NASDAQ TRADING ACTIVITY					Volume: 368,505,000				
■ ACTIVE STOCKS					■ BIGGEST MOVES				
Friday	Stock traded	Close price	Day's change		Friday	Close price	Day's change	Day's change %	
Account	30,114,500	386	+23		Time	192	+48	+34.8	
Trusts Dom	14,182,110	371	+20		20% Int	179	+39	+27.3	
Health	12,300,000	762	+20		Bank	161	+104	+65.5	
Applied Mat	10,827,420	30	+17		Stamps	229	+34	+15.0	
Oil	9,230,000	289	+23		Chem Prod				
Comcast	8,100,000	25	+2		Atlantic Pac	96		-17.4	
Dell Comp	6,924,000	25	+2.8		Washing F	194	-23	-12.6	
Drac	6,765,100	212	+4		Food & Bev	194	-24	-12.1	
Amgen	5,791,000	31	+4		Optics				
Sun Micro	5,774,100	218	+4						

Low	Est. vol.	Open Int.		Open	Settle
865.10	141,311	323,843	■ CAC-40 (200 x Index)	2919.0	2919.0
981.00	34,873	85,595	Dec Jan	2387.0	2387.0
Low	Est. vol.	Open Int.	■ DAX		
16350.0	34,725	125,727	Dec	4143.0	4143.0
15390.0	25,519	85,552	Mar	4182.0	4182.0

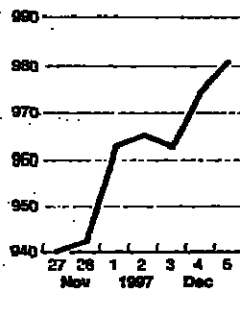
WORLD MARKETS AT A GLANCE

Country	Index	Dec 3	Dec 4	Dec 5	1997	Year	High	Low	Open	Close	Change	Vol	P/E
Argentina	Consumer	2254.02	2254.02	2254.02	2254.02	2254.02	2254.02	2254.02	2254.02	2254.02	0.00	1,000,000	1.2
Brazil	Stocks	2557.2	2557.2	2557.2	2557.2	2557.2	2557.2	2557.2	2557.2	2557.2	0.00	1,000,000	1.8
Canada	All Share	5762	5762	5762	5762	5762	5762	5762	5762	5762	0.00	1,000,000	1.5
France	CAC 40	4463	4463	4463	4463	4463	4463	4463	4463	4463	0.00	1,000,000	1.3
Germany	DAX	2557.2	2557.2	2557.2	2557.2	2557.2	2557.2	2557.2	2557.2	2557.2	0.00	1,000,000	1.2
Italy	FTSE 100	4078	4078	4078	4078	4078	4078	4078	4078	4078	0.00	1,000,000	1.5
Japan	Nikkei 225	15715.5	15715.5	15715.5	15715.5	15715.5	15715.5	15715.5	15715.5	15715.5	0.00	1,000,000	1.2
South Africa	JOSE	601.19	601.19	601.19	601.19	601.19	601.19	601.19	601.19	601.19	0.00	1,000,000	1.2
Spain	IBEX 35	3571.5	3571.5	3571.5	3571.5	3571.5	3571.5	3571.5	3571.5	3571.5	0.00	1,000,000	1.2
UK	FTSE 100	4078	4078	4078	4078	4078	4078	4078	4078	4078	0.00	1,000,000	1.5
US	Dow Jones	8140.12	8020.15	8002.01	8020.15	8020.15	8140.12	8002.01	8020.15	8020.15	-18.14	1,000,000	1.2

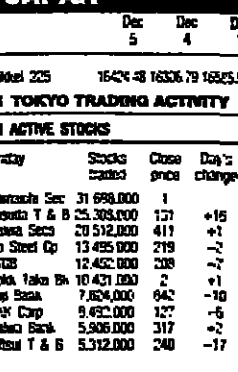
DOW JONES



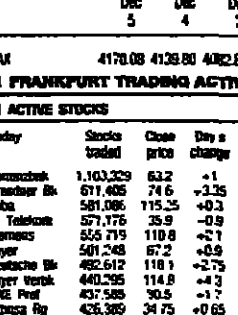
FTSE EUROPE 300



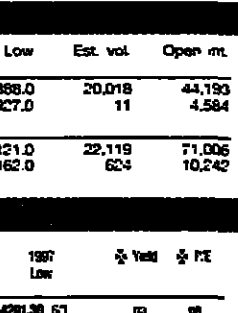
JAPAN



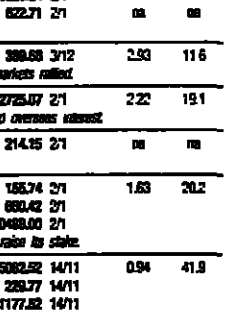
GERMANY



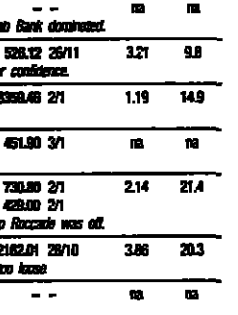
FRANCE



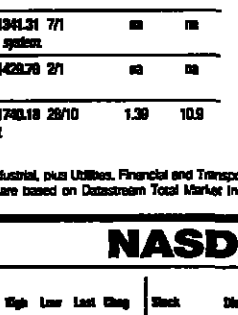
UK



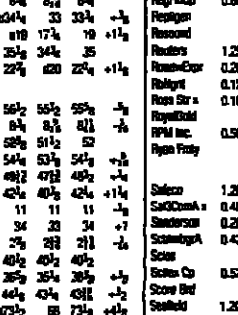
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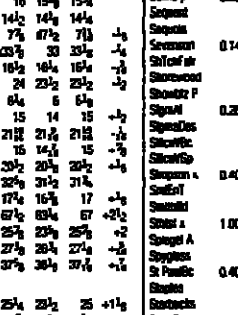
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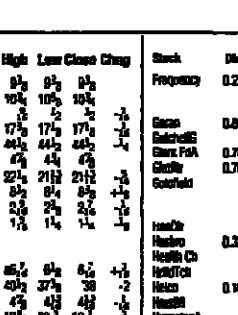
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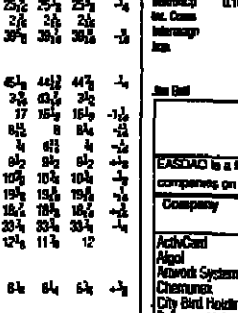
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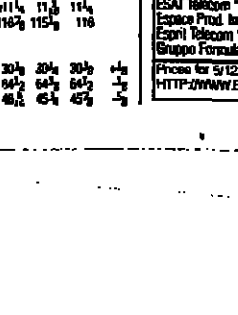
EUROPE



AMERICA



ASIA



AFRICA

OCEANIA

EUROPE

FT GUIDE TO THE WEEK

MONDAY 8

Marketing gas

EU energy ministers meeting in Brussels will try to agree plans to open Europe's \$100bn-a-year natural gas market to competition. After eight years of discussion, and a renewed push for agreement since last year's deal on liberalisation of the electricity market, a compromise plan has largely been agreed. The key question remains the extent to which the market would be opened to competition, and which customers would be eligible to shop around for gas supplies. Luxembourg, holder of the EU presidency, proposes opening about 23 per cent of the market - accounted for by the largest energy users in each EU state - initially, rising to 38 per cent after five years, and 33 per cent after 10 years, similar to the pattern of the electricity directive.

Gore takes the heat



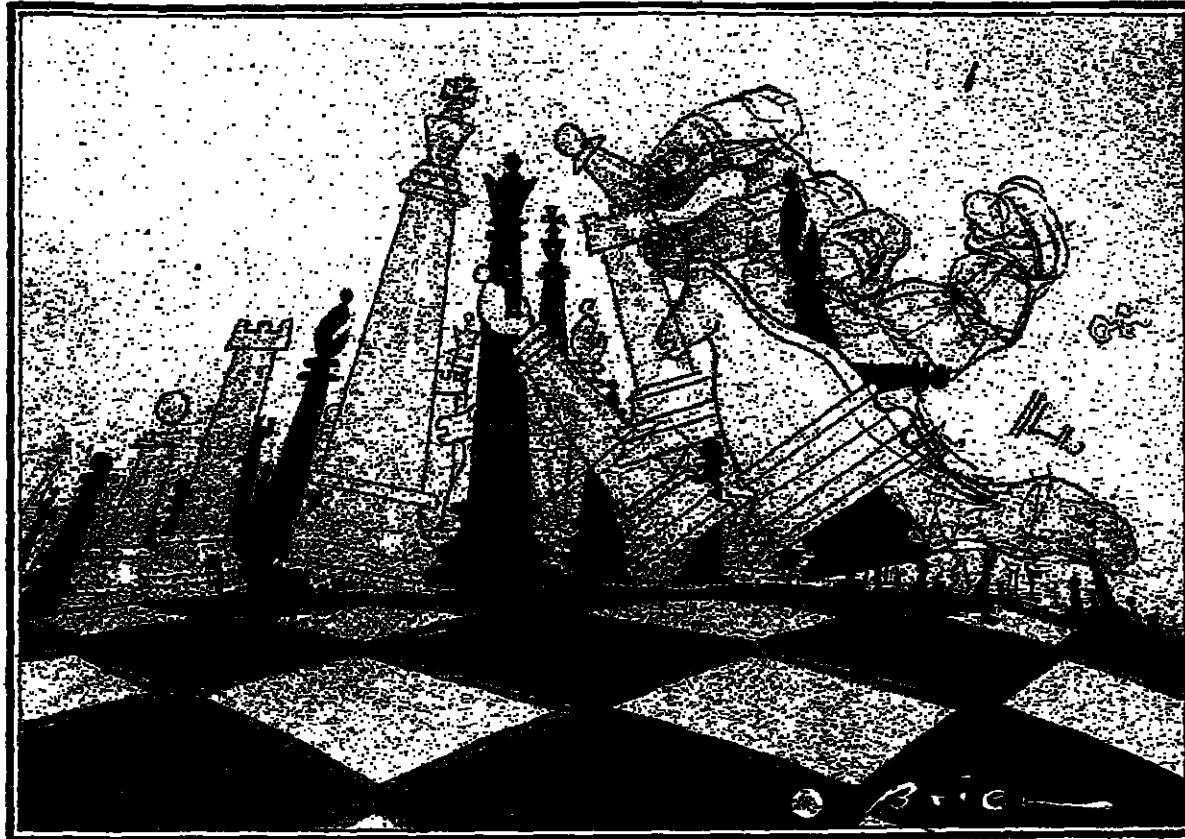
Al Gore, US vice-president, makes a one-day trip to Kyoto to meet international delegates at the UN climate change conference on Monday, when ministerial-level meetings start to round up last week's talks. Mr Gore will give a speech which delegates hope may break the deadlock in the negotiations. The 10-day conference is scheduled to end on Wednesday with agreement among developed countries on targets to cut greenhouse gas emissions, but progress has been slow. The US has demanded participation by developing countries as a precondition for signing the agreement, and Mr Gore said last week that the US was prepared to walk away from an unsatisfactory agreement.

Mating game

Controversy has already marred the first world chess championship played on the knock-out system, at Groningen, Netherlands. Nearly 100 grandmasters compete for the right to challenge the Russian holder Anatoly Karpov in next month's final. World number one Garry Kasparov has refused to take part, while world number two Vladimir Kramnik has also withdrawn on the grounds that Karpov has an unfair advantage. The record \$5m prize fund is guaranteed by Kirsan Ilyumzhinov, president of the International Chess Federation and ruler of the Caucasian republic of Kalmykia, where critics allege that oil and caviar revenues are being squandered on off-beat projects such as the newly constructed Chess City.

Refugee count

The United Nations refugee agency publishes its annual report on the state of the world's refugees. The Geneva-based UN High Commissioner for Refugees has been forced to cut



Chess grandmasters Garry Kasparov and Vladimir Kramnik have checked out of the first world championship to be run as a knock-out

budgets next year because funding has fallen along with declining refugee emergencies. However, the report points out that the numbers of internally displaced and stateless people are rising and, unlike refugees fleeing across national borders, they often have little or no access to international assistance. The UNHCR has a current caseload of about 23m refugees and displaced people, down from 26m in early 1996.

Foreign affairs

EU foreign ministers meet in Brussels to prepare for this week's EU summit in Luxembourg, where plans for eastern enlargement are at the top of the agenda. Ministers will also discuss the follow-up to last week's summit with the US and Canada.

Holidays

Argentina, Austria, Brazil, Chile, Colombia, Guam, Italy, Liechtenstein, Macau, Malta, Monaco, Panama, Paraguay, Peru, Portugal, San Marino, Seychelles, Spain, Switzerland, Vatican City, Venezuela.

Surveys

China: World Pulp and Paper.

TUESDAY 9

Deadline Bosnia

Bosnia's ethnic communities will come under strong pressure to settle quickly the many remaining disputes hampering reintegration of their war-shattered country. The western powers which, together with Russia and Japan, make up the Bosnian Peace

Implementation Council are expected to call at their two-day meeting in Bonn for Serbs, Muslims and Croats to agree common citizenship, passport and car registration laws by December 15, and currency and customs arrangements and a new national flag by December 20. Earlier deadlines have been ignored by the Bosnian Serb republic and the Muslim-Croat federation.

European diagnosis

The United Nations Economic Commission for Europe publishes its latest economic assessment of Europe's economies. The UN/ECE, which has traditionally focused on central and eastern Europe, says that aggregate output has grown this year in the transition economies for the first time since the collapse of communism in 1989. In particular, the economic decline in Russia appears to have ended - though there is no sign of the promised recovery. Most other countries in the region have seen positive growth in the past two years.

Korean settlement bid

Historic negotiations on a permanent settlement to the Korean conflict begin in Geneva between North and South Korea, the US and China. The four-party talks, hosted by the Swiss government, kick off with a two-day opening session, but diplomats say they could last for months or years.

Islamic summit

Some 2,000 official delegates are expected to attend the three-day summit of the Organisation of Islamic Conference in Tehran, including 35 heads of state from Muslim countries.

Another 15 delegations of "special guests" have been invited. The 55-member organisation's summit will discuss regional issues such as the Arab-Israeli conflict and Afghanistan and ways of improving trade and economic relations between Islamic countries.

Russia's WTO application

The World Trade Organisation working party considering Russia's membership application meets in Geneva. The talks are moving more slowly than hoped because of delays by Moscow in producing offers to open up its domestic market for goods and services. Russia and the US agreed earlier this year that they would aim for Russian entry in 1998, but this now looks an unlikely prospect.

Holiday

South Africa, Tanzania.

Survey

Hungary.

WEDNESDAY 10

Labour facing revolt

Britain's Labour government faces its first serious backbench revolt since the election in a vote to cut benefits to lone parents. Ministers' decision to go ahead

with the cuts, proposed by the previous Conservative government, prompted more than 100 Labour MPs to write a private letter to Gordon Brown, the chancellor of the exchequer, calling for the plans to be postponed. Some were placated by Mr Brown's Green Budget plans to pump \$300m into childcare and helping lone parents find jobs. A number of Labour members are expected to vote against the measure or abstain.

Nobel awards

The Norwegian Nobel Committee holds a ceremony for the winners of the 1997 Peace Prize, the International Campaign to Ban Land Mines and its co-ordinator, Jody Williams. In Stockholm, the 1997 Nobel Prizes are presented followed by a banquet at city hall.

Holidays

Equatorial Guinea, Kiribati, Namibia, Thailand.

Surveys

French Finance and Investment; Italian Industry and Finance.

THURSDAY 11

Sinn Féin at No 10

Gerry Adams and Martin McGuinness, the Sinn Féin leaders, are due to meet Tony Blair, the UK prime minister, in Downing Street. Conservatives and Ulster Unionists have expressed outrage at the meeting, the first time a senior Irish Republican has been invited to Downing Street since 1921. But Mr Blair has indicated he is determined to treat Sinn Féin, the political wing of the IRA, the same as other parties involved in the Northern Ireland talks.

Conservatives and Ulster Unionists have expressed outrage at the meeting, the first time a senior Irish Republican has been invited to Downing Street since 1921. But Mr Blair has indicated he is determined to treat Sinn Féin, the political wing of the IRA, the same as other parties involved in the Northern Ireland talks.

Chileans vote

Some 8m Chileans go to the polls to elect a new house of representatives and half the senate. The centre-left government coalition, the Concertación of Parties for Democracy, expects to keep its majority in the lower house and hopes to win one or two more seats in the senate. The real balance of power in congress will not be clear, however, until just before Christmas, when the armed forces and the supreme court have named five of the nine "institutional" senators. The one secure new member is Chile's former dictator, Gen Augusto Pinochet, who takes an automatic *ex-officio* seat when he retires from the army command in March.

No jobs for the girls

The International Labour Organisation in Geneva publishes a report on

women in management which shows that women are still failing to break through the so-called "glass ceiling" barring them from top jobs.

Holiday

Burkina Faso.

Survey

FT Exporter.

FRIDAY 12

Enlargement summit

EU leaders meet in Luxembourg for a two-day summit which is expected to select a short-list of countries from central and eastern Europe that are ready to open negotiations in March 1998 on entry to the Union around the turn of the century. The favoured countries are expected to be the Czech Republic, Poland, Hungary, Estonia and Slovenia, to be joined by Cyprus. EU leaders will agree special assistance to Latvia, Lithuania, Bulgaria, Romania, and Slovakia and offer the disappointed countries the possibility of a review of their applications in a year's time. The 15 heads of government will try to placate Turkey with the promise of inclusion in a pan-European conference next year.

Financial services pact

Today is the deadline for concluding a World Trade Organisation pact on liberalising global financial services markets. Negotiators will have been working round the clock to squeeze out the maximum improvements in foreign access to trading partners' banking, insurance and securities sectors. But the final say will lie with Washington, which walked away from an earlier deal in 1995.

Holidays

Kenya, Mexico, Russian Federation.

Surveys

Employee Benefits; Turkish Finance and Industry.

SUNDAY 14

Czech conference

The Czech Civic Democratic party, which has led the country since 1992, holds an extraordinary conference to elect a new leader after the resignation of prime minister Vaclav Klaus last month over a corporate donation scandal. Mr Klaus has said he will stand again and so far no serious rival candidate has come forward. The conference is likely to be bitter, with a division between Mr Klaus and other senior members of the party, and between regional party members, who are thought to back Mr Klaus, and deputies, most of whom want him to step down. If Mr Klaus is re-elected, the party could split and early elections will be likely.

Compiled by Roger Beale.

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ECONOMIC DIARY

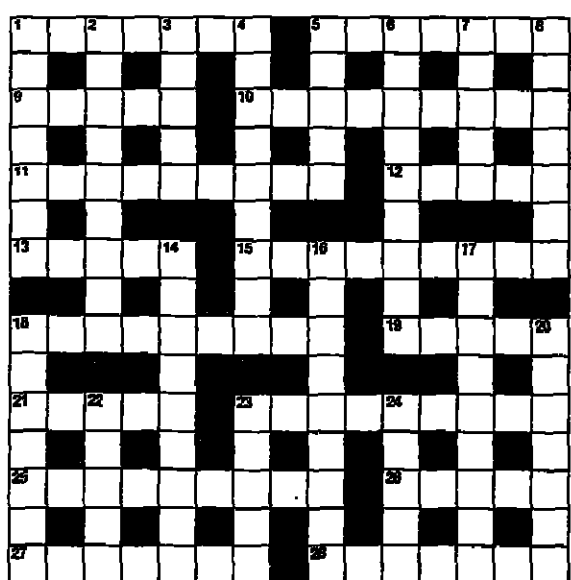
Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual	Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	UK	Oct industrial production*	0.3%	-0.2%	Dec 11	US	Nov retail sales	0.4%	-0.2%
Dec 8	UK	Oct industrial production**	2.1%	1.5%		US	Nov retail sales ex-auto	0.2%	0.4%
	UK	Oct manufacturing output*	0.2%	0.2%		US	Initial claims Dec 6	310k	303k
	UK	Oct manufacturing output**	1.5%	1.5%		US	State benefits Nov 29		2212k
	UK	Nov producer price index input*	-0.7%	-0.2%		US	Nov export price index		-0.3%
	UK	Nov producer price index input**	-8.4%	-8.5%		US	Nov import price index		0.1%
	UK	Nov producer price index output*	0.1%	0.1%		US	M1 week ended Dec 1	\$4.0bn	\$4.8bn
	UK	Nov producer price index output**	1.2%	1.2%		US	M2 week ended Dec 1	\$4.5bn	\$6.5bn
	UK	Nov prod price index ex fd, drnk & tobacco*	0.9%	0.8%		US	Nov monthly M1	-\$1.0bn	-\$3.2bn
Tues	Japan	Oct machinery orders ex elcty & ships**	-15.5%	1.3%		US	Nov monthly M2	\$17.0bn	\$16.3bn
Dec 9	Japan	Oct machinery orders ex elcty & ships	15.0%	-12.3%	Fri	US	Nov producer price index	0.1%	0.1%
	UK	Nov British Retail Cons household surv		5.0%	Dec 12	US	Nov prior prod index ex food & energy	0.1%	UNCH
	Germany	Nov unemployment† pan Germany	15k	18k		US	Oct business inventories	0.3%	0.7%
	Germany	Nov unemployment† west	0k	5k		US	Nov Atlanta Fed Index		17.7
	Germany	Nov unemployment† east	15k	18k		US	Dec Michigan Sentiment pre**	107.0	107.2
	Germany	Sep employment† west	-4k	-4k		US	Nov bank credit		10.9%
	UK	Nov retail price index*	0.1%	0.1%		US	Nov commercial and industrial loans		10.9%
	UK	Nov retail price index**	3.7%	3.7%	Sun	Japan	Dec Bank of Japan Tankan survey		N/A
	Japan	Oct trade balance (IMF) not†		Y849bn	Dec 14	Japan	'97 Tankan capital spending	4.0%	4.6%
Wed	France	Q3 non farm payroll final	0.2%	0.2%	During the week...				
Dec 10	Italy	Sep EU trade balance	L0.6 trillion	L0.2trillion		Germany	Nov cost of living** pan Germany	0.1%	-0.1%
	Italy	Oct ex-EU trade balance	L4.6 trillion	L1.0trillion		Germany	Nov cost of living*** pan Germany	2.0%	1.6%
	US	Q3 current account		-\$99.0bn		Germany	Oct retail sales, real not†**	1.0%	-1.1%
	US	Oct wholesale sales		2.3%		Germany	Oct retail sales, real††		-2.4%
Thurs	UK	Dec CBI industrial trends	N/A		*month on month, **year on year † seasonally adjusted Statistics, courtesy Standard & Poor's Market Intelligence				

*month on month, **year on year †seasonally adjusted Statistics, courtesy Standard & Poor's M&I.

- ACROSS
- They nick money (7)
 - Having broken rib, feel delicious (7)
 - Two kings embracing are not seen so often (5)
 - Keeps on, showing stamina in trouble (9)
 - Ship's name spoilt by being crooked (9)
 - Ancient ring many study (5)
 - Drop a catch in the close (5)
 - Faint possibility of being caught at cover (3-6)
 - Apathy shown for one French enterprise (9)
 - Draw cheque (5)
 - Convict about to turn to drink (5)
 - Account includes a single wrong number (9)
 - Its absence is plain to see (9)
 - In a way age is some protection (5)
 - The loss-making accommodation for students (7)
 - Revolutionary means of power on board (7)

- DOWN
- A sweet shade of brown (7)
 - Like mistletoe? Patricia's going out for it (9)
 - Huge cost of electrical safety precaution (5)
 - Army signalling? (9)
 - Act gladly for an audience (6)
 - Promised to join a union (9)
 - Work I mislaid (5)
 - Concentration points to sound state of mind (7)
 - Straying in herd can result in obstruction (9)
 - A fact isn't treated as fanciful (9)
 - Poor vision means some listeners are kept in the dark (4-5)
 - Shun ale that's distributed free (7)
 - Friar's at home and eats heartily (5)
 - Rough number (5)
 - Helps a beast in distress (5)
 - Get hold of a key file (5)



WINNERS 9,540: D. Cashdan, London NW3; A.R. Hall, Yetminster, Dorset; A. Johns, Loughborough, Leicestershire; J.C. Swann, Shortwood, Gloucestershire.

MONDAY PRIZE CROSSWORD

No.9,552 Set by DANTE

Six bottles of Davys Celebration Champagne for the first correct solution opened and three runner-up prizes of £40 Davys food and wine vouchers redeemable in person or by post. These prizes are available only to winners living in England, Scotland and Wales. Winners with overseas addresses will receive a set of silver-plated place name bases and cards. Solutions by Thursday December 18, marked Monday Crossword 9,552 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday December 22. Please allow 28 days for delivery of prizes.

Name _____
Address _____

Solution 9,540

PERITENT POTAGE
A GOOD FISH
PAROXYSM ABUSIVE
EDUCATIONAL
RAINCHECK PRIZE
IN THE P
GUEST DRIVERS
GOLDEN
RAYGUNS SIGH
UMCA CAS
JANNA GEOMETRIC
GREAT GUY
LESSON UPRIGHT
ETRA IEEH
DESIST PORRIDGE



Prizes for electricity consumed for the purposes of the electricity supply and for the purposes of the electricity supply in England and Wales.

Prizes for electricity consumed for the purposes of the electricity supply and for the purposes of the electricity supply in England and Wales.

Prizes for electricity consumed for the purposes of the electricity supply and for the purposes of the electricity supply in England and Wales.

JOTTER PAD

Prizes for electricity consumed for the purposes of the electricity supply and for the purposes of the electricity supply in England and Wales.

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Prizes for electricity consumed for the purposes of the electricity supply and for the purposes of the electricity supply in England and Wales.

China

The 'soft landing' is becoming bumpier as the economy throws up difficulties. Tony Walker and James Harding report

Key stage on long march to market

China stands at a crossroads in its transition from centrally planned to market economy, and the next year is likely to prove critical in its efforts to advance reforms.

The leadership might have expected an easier ride after a difficult year politically, but economic turmoil in Asia and signs of slowdown in China's own economy mean the next period will prove especially challenging. China cannot escape regional turbulence. Its leaders face a monumental task managing the fallout, ranging from shrinking markets for China's own products to stiffer export competition from countries whose currencies have been devalued.

At the same time, Beijing is being thrust into a leadership role in helping to stabilise regional economies. These additional responsibilities are testing China's ability to act and think globally at a time when it is mired in its own deep-seated economic problems.

A year ago, China's leaders were congratulating themselves on having achieved a "soft landing" for an economy which had experienced severe overheating: inflation was down to single digits from a high in 1994 of 24 per cent and, more importantly, Beijing had achieved this feat without sacrificing growth.

It had all seemed too good to be true now, it appears, a soft landing is becoming

bumpier, and China's economic managers are perhaps understanding better how difficult it is to "fine tune" an economy while advancing reforms which themselves are disruptive.

The leadership needs to show boldness in the next phase of the transition to a market system; but nerves will be frayed by regional uncertainties and risks of domestic turmoil from state sector reform which must be tackled if China is to move forward.

There are few easy choices if China is to realise its undoubted potential. Deng Xiaoping's legacy is fragile. Loss of momentum in reforms at this critical time could be catastrophic.

China can hardly be accused of lacking ambition. President Jiang Zemin in his report on September 12 to the 15th National Congress of the Communist Party set as a goal for the first decade of the new millennium a doubling of gross national product.

By the middle of next century, at the centenary of the founding of the People's Republic of China, the country will have become a "prosperous, strong, democratic and culturally advanced socialist country", according to Mr Jiang.

It will take more than words to achieve such a result, but China continues to make significant progress towards achieving its aims. Its leaders appear to have

handled well the transition to a post-Deng era.

The death in February of the father of China's reforms raised concerns about drift, but in the event the leadership hardly missed a beat.

Deng's passing cleared the way for Mr Jiang to assert control in his own right as first among equals in a collective. The old man's lingering departure had weighed heavily on the leadership and decision-making.

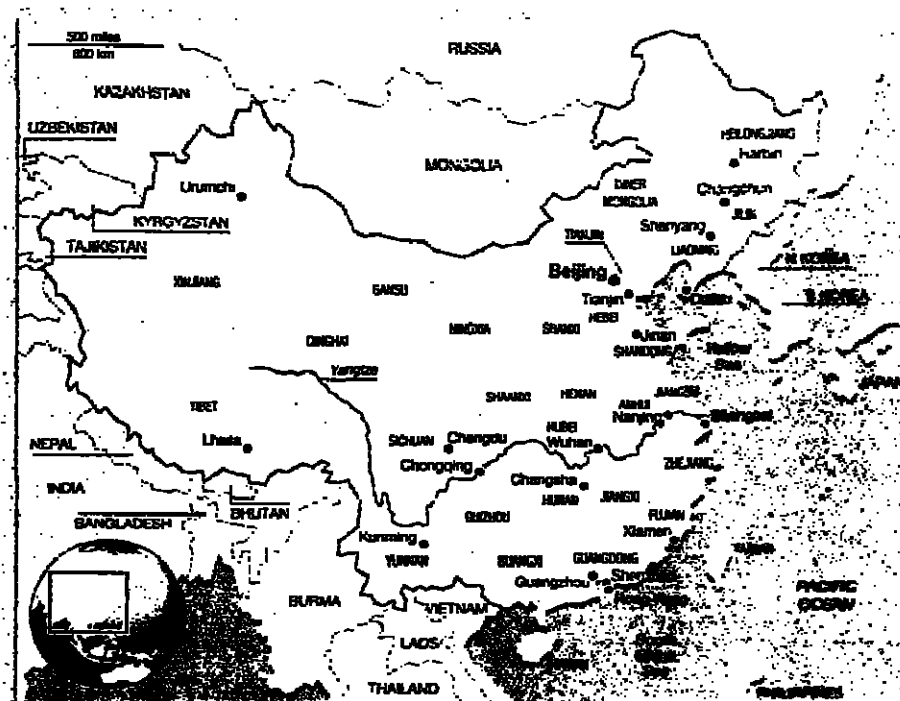
Irrespective of Deng, 1997 was always going to be a watershed. The July 1 handover of Hong Kong helped to define the year, and September's party congress gave it political significance.

The successful October summit in Washington between Chinese and US leaders held out hope that the most important bilateral relationship of the post-Cold War era will achieve maturity and a degree of certainty.

A joint call for a "constructive strategic partnership" makes sense, although tensions will inevitably persist over such issues as human rights, trade, Taiwan and arms proliferation.

On a wider international stage, Beijing was also active, seeking to re-define a multipolar post-Cold War world in which US domination is checked and China's role as an emerging economic force is recognised.

Chinese assertiveness internationally is becoming more apparent as its



Constitution

- **Form of government** One-party rule by the Chinese Communist Party (CCP)
- **The executive** 15-member State Council elected by the National People's Congress (NPC); State Council members, including the prime minister, may not serve more than two consecutive five-year terms
- **Head of state** A president (currently Jiang Zemin) and vice-president are elected for a maximum of two consecutive five-year terms by the NPC
- **National legislature** Unicameral National People's Congress (NPC); 2,870 delegates elected by provinces, municipalities, autonomous regions and the armed forces; elects the president and members of the State Council and the members of the Standing Committee of the NPC, which meets when the NPC is not in session. All arms of the legislature and executive are for five-year terms
- **National government** The Politburo (currently 20 members) of the Chinese Communist Party sets policy and controls all administrative, legal and executive appointments; its Standing Committee is the real focus of power
- **Local government** regions elect local People's Congresses and are administered by People's Governments
- **National elections** Next elections due by March 1998 (presidential and State Council)
- **The Politburo** currently 20 members; of the Chinese Communist Party sets policy and controls all administrative, legal and executive appointments; its Standing Committee is the real focus of power
- **Regional assemblies** The 22 provinces, four special municipalities and five autonomous

self-confidence grows. Its lead in arranging four-party peace talks aimed at ending the state of war on the Korean peninsula is a case in point.

Its participation in International Monetary Fund-sponsored efforts to bail out the Thai and Indonesian economies is also significant for a country which until the 1980s was virtually closed to the outside world.

China's full integration into the global system may be some way off, but 1997 witnessed further advances. Membership of the World Trade Organisation remains elusive, although negotiators report progress. Warmer ties between Beijing and Washington may be helpful.

Politically, a post-Deng leadership took shape with a new politburo approved by September's party congress. The politburo's seven-man standing committee, the body which effectively runs China, is broadly reformist

and is unlikely to deviate far from Deng's blueprint.

The party gathering, a seminal event held at five-year intervals, consolidated Mr Jiang's control.

The conclave also endorsed Zhu Rongji as premier by moving him to number three in the hierarchy behind Mr Jiang and Li Peng, the outgoing premier. Mr Zhu's promotion will be welcomed by western business which sees him as "results-oriented".

A new government for the next five years with Mr Zhu at its head will be "elected" by a National People's Congress, or parliament, meeting next March. A big turnover of heads of ministries and commissions is certain under Mr Zhu who is known for applying rigorous standards.

But even before the new administration is formed Mr Zhu who, as executive vice-premier, is broadly responsible for the economy, faces a

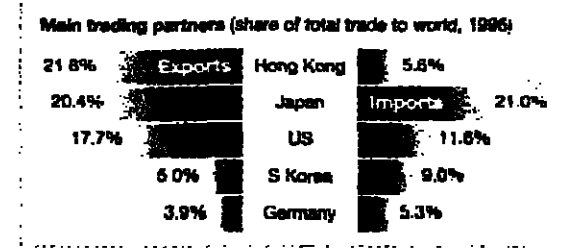
worrying period. A marked slowdown in third-quarter growth and signs of deflation - retail prices in October were up 0.4 per cent - have placed the spotlight on policies which appear biased towards curbing inflation rather than encouraging economic activity.

China will achieve its growth targets for the year of 8 to 9 per cent, but this almost certainly overstates the real rate of growth which is probably 1 or 2 percentage points lower due to inefficiencies in the system, characterised by a continuing build-up of unsold goods.

Allied with these worries are signs that the dynamic non-state sector is losing steam. For the first time since 1989, growth in investment this year by urban co-operatives and township and village enterprises, which account for 40 per cent of the gross value of industrial output, was less than that for industry generally.

Area: 9,571,300 sq km
Population: 1,211,210,000 (1996 official est)
Language: Mandarin
Capital: Beijing (pop: 7,000,000)
Other major cities: Shanghai (7,830,000), Tianjin (5,770,000), Shenyang (4,540,000), Wuhan (3,750,000)
Exchange rate: 1996 av \$1 = Yn 8.3411
December 1 1997 \$1 = Yn 8.2795

Economic summary	
	1997 Estimate
Total GDP, nominal (\$bn)	985.2
Real GDP growth (annual % change)	8.4
GDP per head (\$)	785
Inflation, average (annual % change in CPI)	5.0
Industrial production (annual % change)	12.0
Money supply, M2 (annual % change)	25.8
Foreign exchange reserves (\$bn)	125.0
Budget balance (% of GDP)	-2.2
Total foreign debt (\$bn)	135.4
Current account balance (\$bn)	7.89
Merchandise exports (\$bn)	189.1
Merchandise imports (\$bn)	144.7
Trade balance (\$bn)	24.4



IN THIS SURVEY

- The economy
- Unemployment
- Trade & investment
- Foreign policy
- Hong Kong
- Politics
- Privatisation
- Banking
- Guangdong
- Chongqing
- Shanghai
- Shenyang
- The stock market
- Capital raising

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Your Future Is Our Future

2 CHINA

THE ECONOMY • by Tony Walker

A new and testing phase

It would be a mistake for policymakers to ignore the warning signals

Chinese officials have said little about turbulence in Asian markets, and what they have said has tended to sound complacent.

The impact on China will be negligible, they say, because the currency is not fully convertible and therefore protected from speculative pressures, the current account is healthy, exports are up and foreign exchange reserves are strong.

All this is true, but China's economy, irrespective of regional problems, is entering a new and testing phase with growth slowing and unemployment rising. Asia's turmoil provides a worrying backdrop to China's attempts to maintain growth and accelerate reform of its indebted state sector.

Added to these concerns are signs of deflation in an economy burdened by overcapacity in some sectors, such as consumer durables. Retail prices rose by just 0.4 per cent in October compared with the same month last year.

Gross domestic product growth for the third quarter

of 8 per cent, compared with 9.5 per cent for the first half, reveals a marked slowing of activity. Officials say this is in line with growth targets for the year, but they cannot be sanguine about such a slowdown.

In any case, China's GDP may be overstated by between 1 and 2 percentage points because of inefficiencies in the system, including a continued build-up of inventories. Western economists say that should growth slow to around 6 per cent (compared with an average of about 10 per cent since reforms were launched in 1979) this would represent a "danger zone" because of implications for job creation.

A "social compact" between an authoritarian government and a relatively quiescent populace, many of whom have been affected by painful reforms of the state sector, requires continuing high rates of growth to provide economic opportunities for the jobsless.

A key to continued growth of around 8 to 9 per cent are high savings rates of 40 per cent of earnings. These are among the highest savings ratios in the world and have helped to underpin China's supercharged economy, but such levels might be difficult to sustain if the economy slows further and unemployment rises faster.

Mao Yuzhi of Unirule, a

privately-funded think-tank, says that a 40 per cent savings rate translates into 10 per cent growth, but he believes that such high savings levels will fall back, and it is inevitable that growth will slow over the next few years.

On the other hand, he does not believe China is heading for a recession, and is dubious about calls for selective economic stimulus. "China does not have a problem of insufficient demand, China is not in a period of recession," Mr Mao says. "The problem is that supply cannot meet demand very often because of rigidities in the system."

Other Chinese economists would dispute Mr Mao's conclusions, pointing to a continuing build-up of unsold goods as evidence of a flat economy.

Fan Gang, director of the National Economic Research Institute, an economic consultancy, has for the past year been calling on the government to stimulate activity to limit the possibility of a damaging slowdown. He advocates accelerated approvals for new projects, many of which involve foreign investment, and increases in infrastructure spending.

"I am not arguing for a large stimulus. We shouldn't overreact," Mr Fan says. "But I am worried the gov-

ernment will be slow to react and in the end take measures which are too little and too late."

Asia's turbulence, he said, would inevitably make investors and bankers more cautious in their dealings with China and thus there was "all the more reason" the government should seek to offset the impact of slowdown. "These are all factors working in the direction of contraction," he said.

Other signs of sluggishness include a continuing slow down in the growth of bank lending. Outstanding loans for the first nine months increased by about the same amount as the corresponding period last year.

Financial institutions, under stricter central bank control, are becoming more selective about projects they are willing to support and are falling well short of fulfilling government credit quotas. This contrasts with earlier years of the economic boom when credit ceilings were widely ignored.

Growth of investment in fixed assets continues to slow, another sign of reduced activity. In the first three quarters, investment grew by 10 per cent, 2.6 percentage points lower than the first half of 1997.

At the same time, inventories continued to grow significantly faster than industrial output. In August, they

were up 13.7 per cent in real terms, faster than both output and fixed investment.

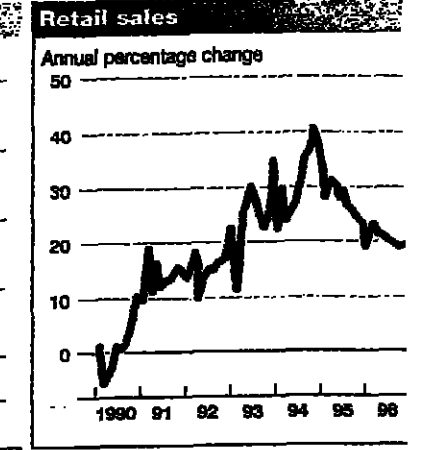
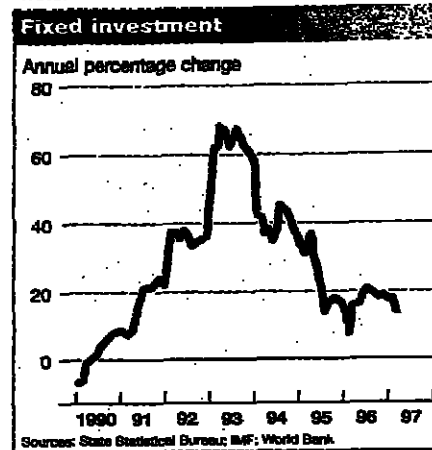
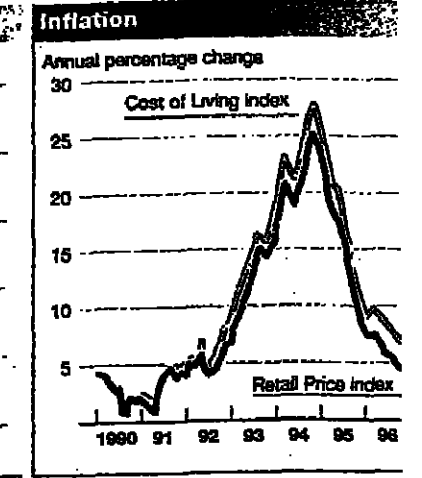
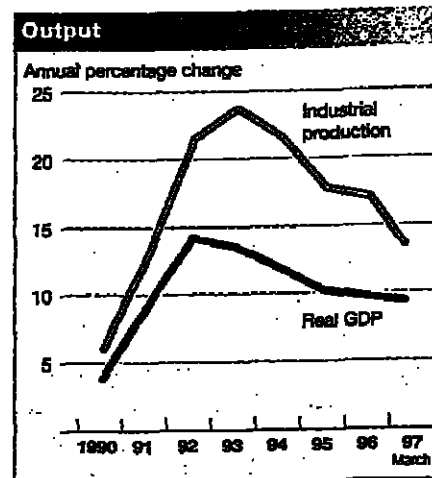
Efforts to reduce stockpiles of unsold goods are likely to be complicated by greater competition in overseas markets following devaluation of south-east Asian currencies.

China's export boom - a trade surplus is predicted this year of about \$35bn - seems certain to fall off over the next year. Slowing export growth would feed anxieties in the region about a competitive devaluation of the yuan.

Perhaps the most worrying sign of reduced activity comes from the non-state sector where, for the first time in a decade, investment growth, at 8.4 per cent in the eight months to August, fell below that of investment in industry generally.

This indicates that urban collectives and township and village enterprises, accounting for 40 per cent of the gross value of industrial output, are sliding towards recession. A host of troubling problems from lack of access to credit to poor product mix and uncertainty over ownership is hitting what had been the economy's most dynamic sector hard.

The state sector itself is scarcely faring much better. About half China's state enterprises were loss-making in the first nine months, about



the same as last year. Total losses amounted to Yn57.5bn.

China's external sector continues to be a bright spot. Booming exports contributed to continuing strong growth in foreign exchange reserves which reached

\$130bn in August. Unutilised foreign investment was up 16 per cent year-on-year in the eight months to August, but new commitments dropped 41 per cent.

In the light of such a performance and a currency which has remained rock-

solid against the dollar, might regard aish negative observer about the economy.

But equally it would be a mistake for policymakers to ignore worrying signs. Last year's "soft land" now looking rocky.

UNEMPLOYMENT • by James Harding



Putting on a brave face: former state workers join the queue for new employment at the Changchun labour exchange

Photo: Adrian Bradshaw

Reforms lengthen job queues

The challenge is to create enough jobs to offset those being lost in the state sector

Seasoned travellers in China get into a taxi and promptly ask the driver how long he or she has been behind the wheel.

The growing army of new cabbies who barely know how to drive, and certainly do not know their way around town, is arguably one of the more benign symptoms of rising unemployment and underemployment in China.

In the past few years, slow progress in reforming state-owned enterprises has resulted in an increasing number of redundancies from state industries.

The official unemployment rate is 3 per cent, but that does not include the millions of so-called "laid-off" workers who remain on the books of their former employers but are no longer required to show up for work.

The more fortunate may find jobs in the growing services industries or the informal economy - such as using a friend's licence to

drive a taxi. The less fortunate, however, have to survive on China's very modest welfare payments for the unemployed or the less-than-subsistence wage paid to the state sector's redundant workers.

In some areas, an increasingly idle workforce has had a less benign impact - there have been reports of social unrest in inland China as well as anecdotal evidence of an increase in serious crime and domestic violence.

Even President Jiang Zemin acknowledges that the accelerated rationalisation of China's state sector, which employs 12m people in Chinese cities or 56 per cent of the urban workforce, will be painful.

In September, Mr Jiang told a congress of the ruling Communist party that China must speed up the reform of its state industries, encouraging greater diversification of ownership.

"We should encourage the merger of enterprises, standardisation of bankruptcy procedures, divert laid-off workers and increase efficiency by downsizing staff," he said.

The implication is that China's unemployment prob-

lem is set to get worse, but by how much?

The ministry of labour calculates that official unemployment in urban areas has climbed from 2.3 per cent in 1991 to 3 per cent at the end of last year.

Following President Jiang's promise to move ahead with streamlining state enterprises, Li Boyong, minister of labour, pledged to keep the urban jobless rate from rising above 4 per cent until 2000.

But the official figures obscure the real depth of the problem. Even government officials acknowledge that if the redundant workers retained on the books of troubled state enterprises were included in the official unemployment statistics, the jobless rate would be over 7.5 per cent.

By the end of last year, the government's figures showed 5.5m workers officially unemployed, 9m temporarily laid off and 11m with wage arrears.

The World Bank believes real levels of unemployment are even higher. A Bank survey this year of five large Chinese cities shows that unemployed and redundant state enterprise workers together account for 13 per

cent of the labour force.

The potential for further redundancies is even greater as "many workers are probably not really needed in the enterprises in which they are employed," according to the World Bank.

Government officials estimate that 15 to 20 per cent of state enterprise employees could be released from their companies without affecting output.

The government is making much of its efforts to retrain laid-off workers for re-employment, but the challenge is to create jobs quickly enough to absorb the redundancies.

More than 1.2m people have been retrained already in more than 2,700 ministry of labour retraining centres.

Collectively-owned and privately-owned businesses have grown at double-digit rates in recent years and have helped to take some of the strain created by the growing number of state sector lay-offs.

Foreign investment has also provided new jobs, particularly to young workers along China's eastern seaboard.

Nevertheless, regional evidence suggests that the state industries are being restruc-

tured faster than jobs are being created.

In Shanghai, for example, the failure of old state-owned companies has driven up the number of redundancies but the tertiary sector has grown too slowly to absorb the new jobless.

In addition, many service businesses regard former state industry employees as inadequate for work in a modern financial or commercial office.

The issue is how growing unemployment and underemployment will affect society.

There have been occasional reports of worker unrest. Chinese officials rarely report social disturbances, but a case of violent protest at a factory in Mianyang in Sichuan this year was confirmed.

There is also growing concern about crime in provincial cities.

As the income gap has widened and the numbers of redundant workers have increased, the crime rate has risen modestly in some areas and there has been a marked increase in the number of "serious crimes".

But what has been striking is the extent to which widespread underemployment and the rising level of unemployment has not torn at the fabric of Chinese society. This is largely due to China's informal economy supplementing incomes.

State-owned enterprises provide accommodation for most of their workers, offering potential rental income to families working in different state companies who chose to live in one apartment and sub-let another.

More people are finding domestic work in the homes of the rising middle class or through casual labour for private entrepreneurs.

They are, however, generally not declaring their incomes for fear of jeopardising the subsistence wage and welfare benefits they receive from their former employers.

Would-be chefs, night club operators, peddlers and traders can also pick up moonlighting jobs. And so, of course, can taxi drivers.

TRADE AND INVESTMENT • by John Ridding

The going gets more difficult

Disenchantment, competition and regional upheaval have made investors wary

Trade and investment - two of China's main economic motors - are in danger of misfiring amid regional financial upheaval, disappointing returns for many multinationals and sharper competition from south-east Asian rivals.

The momentum seems sufficient to allow any immediate impact at the macroeconomic level. But senior officials are watching the trends carefully while economists express a degree of concern.

Most evident are changes in the pattern and scale of investment. "Contracted investment is declining, particularly in the first three quarters of the year," says Xing Houyuan, director of the department of multinational business at a policy institute under the ministry of foreign trade and economic co-operation.

Estimates vary, but most economists predict a sharp fall in contracted investment, which totalled \$42bn in 1996.

Actual investment should still rise as a rush to beat the expiry of tax incentives feeds through, though the expected amount of \$30bn marks a relatively modest increase.

These are still large numbers, maintaining China's position as the biggest recipient of foreign direct investment after the US. But the trends reflect rising competition for direct foreign investment, an important element of China's economic strategy.

"Both in terms of capital requirements and expertise, foreign investment remains a keystone in China's development policy," says the managing director of a US consultancy.

"Beijing has explicitly spelled out a role for foreign investment in spreading development to less-advanced provinces and to upgrade the manufacturing base in the coastal regions."

Investors, however, have become more wary of fulfilling this role. The lack of adequate infrastructure in hinterland provinces, continued uncertainty over investment regulations, increased competition from domestic players and the meagre returns of existing investments have combined to cool the China fever which gripped many foreign businesses.

An Economist Intelligence Unit survey this year found that more than half of the companies questioned were disappointed with their performance in China.

An additional factor in curbing investment is the increasing draw of regional rivals. "Wages have risen steadily in the southern

coastal provinces where we have our factories," says the chief executive of one Hong Kong electronics company. "We are now looking at other production sites, such as Bangladesh, which give the same price edge that China used to have."

The challenge facing China is increased by sharpening competition from the Asian economies. The wave of devaluations that has swept the region since Thailand triggered the region's financial crisis in July has made exports from Malaysia, Thailand and Indonesia between 15 and 40 per cent cheaper. For multinationals, that adds low costs to the existing advantages of infrastructure and, with some exceptions, regulatory frameworks.

Long used to a flood of investors beating a path to its door, China is thus faced with making itself more attractive.

Addressing an audience in Hong Kong in September, Zhu Rongji, China's top economic official, signalled

Asean exports are less of a problem than competition in the US and Europe

that tax incentives for imports of capital equipment in selected industries could be reintroduced. Chen Jinhua, minister of the state planning commission, says details will be announced "pretty soon".

More generally, provincial officials talk of the need to standardise regulations and improve the terms of investment contracts to reassure foreign investors.

"They don't want to lose investment, particularly in higher technology areas to other countries in the region," says the finance director of one European engineering company.

The implications of the regional crisis are similarly significant for China's trade performance. Having helped foster the wave of competitive devaluations by engineering a fall in the yuan in 1994, China is reaping the whirlwind.

The problem is not so much in its exports to Asean, which account for only about 7 per cent of the total, but in the competition for market share in the US and Europe.

While this impact should not be exaggerated - Merrill Lynch, the US investment bank, argues that direct competition is limited, and imports for processing industries will become cheaper - the 20 per cent growth rate in exports seen in the third quarter is unlikely to be sustained.

"The turmoil in the region

and anti-dumping measures in Europe and the US the prospects for trade are not very optimistic," says Ms Xing Moftee policy institute.

A tougher predicament concerns China's membership of the World Trade Organisation. Discussion of thorny issues was cautious by its absence at President Jiang's recent tour of the US summit with Bill Clinton.

Although US officials sign off at the Asia Economic Co-operation Summit in Vancouver month, the gulf is wide.

The US, along with Europe, continues to offer improved offers of liberalisation in terms of goods and services. insists it has made substantial efforts and is behind developing nations.

western officials are concerned that the downturn in regional economies, and deflationary pressures in China and faltering performance could make going more difficult.

While the link between trade performance and policy remains, there is little doubt the position of economic values in China strengthened by the abroad.

For Beijing, the debtive process of speculation and devaluation which crippled Asia's tiger, mules, underlines the importance of caution in the late financial market implementing reform required for currency convertibility. Perhaps important, are the intentions of trade liberalisation for unemployment and owned enterprise reform.

A World Bank report published this year says, main impact of import liberalisation will be concentrated in "capital-intensive scale-intensive industries where profits are notably high, auto electronics and chemicals."

"Many of these industries are concentrated in regions where unemployment is already high," says report. "Moreover, any difficulties they have would quickly impact the fragile financial system."

But the authorities should not be deterred from liberalisation, says World Bank. Gains from realisation far outweigh costs, it argues, and countries have found the costs of adjustment tended to be less than a pated.

That may be. But the bination of a deflationary external environment pressures on the domestic economy could further plume the tortuous path to the WTO.

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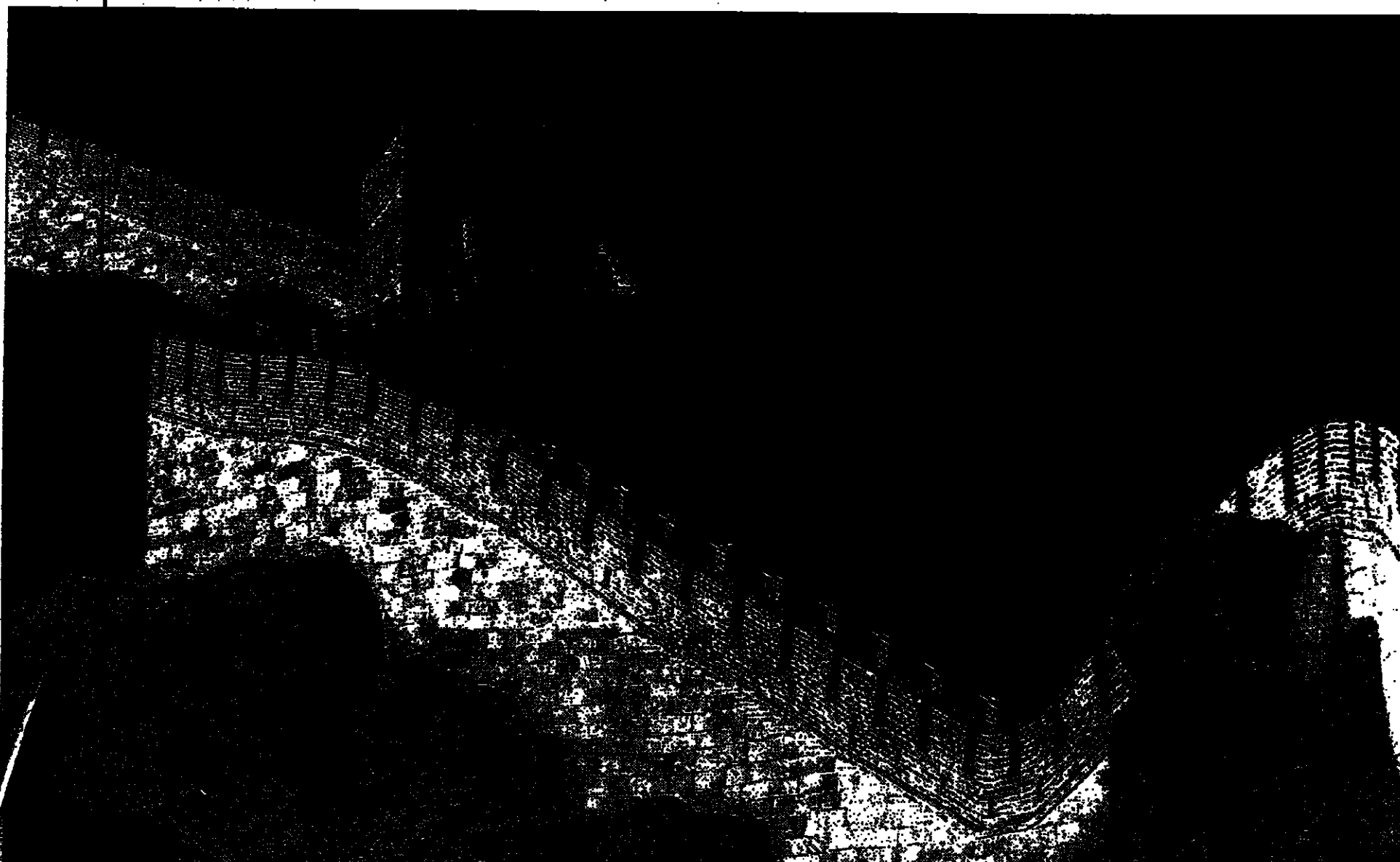
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4 CHINA

FOREIGN POLICY • by Tony Walker

Beijing takes expansive role

An increasing confidence on the world stage is being displayed by Beijing

All roads in late 1997, it seemed, led to and from Beijing. No sooner had President Jiang Zemin returned from his summit in Washington than he was welcoming Russia's President Boris Yeltsin in the Chinese capital.

Simultaneously, Premier Li Peng embarked on a timely visit to Japan to discuss, among other things, Asia's financial turmoil. Hard on the heels of that meeting Mr Jiang was in Vancouver for the Asia Pacific Economic Co-operation forum.

And in the next week or so China's president will be in

Kuala Lumpur for an historic meeting of the nine-nation Association of South-East Asian Nations grouping and leaders of the region's three leading economic powers Japan, South Korea and China.

In the meantime, Beijing helped broker the meeting in Geneva aimed at putting an end to the state of war on the Korean peninsula. That gathering involves North and South Korea, China and the US.

Not since the founding of the People's Republic in 1949 and the emergence of the non-aligned movement in the 1950s has Beijing been quite so engaged on an international stage. But the focus now could hardly be more different.

A bipolar world dominated by Cold War protagonists has given way to an evolving multipolar system in which

the US is a dominant force, but other states and regions are on the rise, notably China.

Chinese officials speak increasingly of "multipolarity" which has become an avowed aim of China's foreign policy, partly as a reaction to US dominance.

But emphasis on a multipolar system in which China is a key participant is also recognition of Beijing's growing responsibilities and weight internationally.

As Chen Jian, an assistant foreign minister, said in an interview: "Since the Cold War is over, we stand for a new type of state-to-state relationship characterised by mutual respect and mutual co-operation as the world moves towards multipolarity."

The year 1997 may come to be regarded as a watershed in Chinese foreign policy, a year during which a re-invigorated China began to display increased self-confidence on a world stage commensurate with its strategic and economic significance.

Circumstances have played their part. Asia's financial crisis has obliged Beijing to assume greater

regional responsibilities. China's contributions to IMF-sponsored bail-outs of Thailand and Indonesia are the first time it has become involved in such exercises.

Beijing may still have misgivings about engagement with the region on a multitude of fronts - engagement brings responsibility but recognises it has no choice. China's spreading economic interests dictate that it contributes to preserving regional financial stability.

While President Jiang's summit with Bill Clinton in Washington in late October, caught most attention among recent "foreign policy events", there have been others. The Hong Kong handover in mid-year was a momentous occasion whose aftermath appears so far to have been handled competently by Beijing.

Recent pressures on the Hong Kong dollar proved an early test of the "one country, two systems" formula under which China assumed control on July 1. China's central bank was supportive, but made clear that the Hong Kong Monetary Authority was responsible for defending the Hong Kong dollar "peg" against specu-

lative assault. Beijing has, generally speaking, appeared to live up to undertakings not to interfere in the day-to-day running of Hong Kong. But these are early days.

However, it seems that for the moment, anyway, China has decided to conduct a more expansive foreign policy aimed both at calming concerns about regional ambitions and consolidating its relationship with the US.

Scarcely more than a year ago China and the US were at loggerheads over Taiwan, and a re-fashioned US-Japan security treaty which the Chinese suspected was aimed at countering their own regional ambitions. At the same time, Beijing and Tokyo were squabbling about the disputed Senkaku islands (China calls them the Diaoyus).

While these issues remain contentious, they appear to have been subsumed by a genuine desire by Beijing to achieve more stable and predictable relationships with other world powers and the US in particular.

Mr Jiang's visit to Washington accompanied by his statement en route that he saw his mission as achieving



Here's to a successful summit. President Jiang Zemin at the White House with President Bill Clinton

a "new starting point" in vexed Sino-US relations was highly significant.

While human rights disagreements tended to dominate the public agenda, in private the two sides made progress in efforts to create

a new framework for better understanding.

The presidents said they were committed to building a "constructive strategic partnership". It is a measure of changes taking place in the world that such an aim

in an evolving multipolar world does not seem preposterous. Sino-US relations will, however, inevitably continue to be buffeted by disagreements over trade, human rights and proliferation.

HONG KONG • by John Ridding

Governing with a light touch

China's handling of the territory's affairs has yet to be put to the test

Beijing has kept a decidedly low profile in Hong Kong despite the emotional rhetoric and pageantry which marked the handover of the territory on July 1.

The People's Liberation Army, which marched across the border amid trepidation in the early hours of July, has remained quietly in its barracks.

Beijing's mandarins south of the border - Ma Yuzhen at the ministry of foreign affairs and Jiang Enzhu at Xinhua - have been active on the social scene, but not in government affairs. "I didn't receive any telephone calls, faxes or instructions," says Donald Tsang, financial secretary, referring to the financial turmoil in the territory.

Beijing's stance is largely dictated by self-interest. A restrained stance is vital to maintain confidence in its newly acquired capitalist territory, viewed by China as an economic motor for the mainland.

Its commitment to the one country, two systems formula which underpins the handover is also an important factor in Sino-US relations and in reassuring international investors.

The IMF, in its annual assessment of the Hong Kong economy, and Standard & Poor's, the credit rating agency, have praised China's treatment of post-colonial Hong Kong. Perhaps most important from Beijing's perspective is that success with regard to Hong Kong could ease the process of peaceful reunification with Taiwan.

Such self-interest, and Beijing's behaviour to date, have prompted optimism about future conduct. "The first months are of particular importance," says one senior western diplomat. "It sets benchmarks and establishes a pattern. The smooth handover will strengthen the hand of those in Beijing who favour a relaxed stance towards Hong Kong."

Their hand has also been helped by the performance of Tung Chee-hwa, Hong Kong's post-colonial ruler. While pro-democracy politicians criticise him as a "yes man" for Beijing, Mr Tung has emerged as a more self-confident leader than many expected. He says Beijing has left him alone to develop and implement policies for the territory and he has secured the trust of the top leadership.

For all the optimism, however, nagging doubts remain. These are still early days for Hong Kong's unprecedented transfer from capitalist to communist sovereigns. A background of robust economic performance, improving regional relations and relative calm across the Taiwan Strait, have made it easier for China to display restraint.

All three of these areas provide potential risks. Most immediate is the financial upheaval which has swept south-east Asia and battered Hong Kong. As in the

political sphere, China has displayed a light touch, leaving Hong Kong's financial management to the territory's authorities and making the occasional supportive comment about the possible use of China's reserves to support the Hong Kong dollar.

If the crisis were to escalate, however, Beijing's willingness to spend its \$130bn foreign exchange reserves to defend its wealthiest territory could be put to a difficult test.

Similarly, competitive pressures from the region, and their likely impact on mainland exports could raise pressure for a devaluation of the yuan. That would add to strains on the Hong Kong exchange rate peg to the US dollar, the linchpin of the financial system and foundation of investor confidence in the territory.

Relations between Beijing and Taipei have stabilised since the Chinese missile exercises near the Taiwan Strait last year. But deep mutual suspicion and the failure to resume negotiations provides potential for tension and disputes which could affect Hong Kong. "Hong Kong, as an area of common ground, provides the scope for improved contacts between Beijing and Taipei," says one western diplomat. "But it could also become a political football."

Behind such concerns lies the fragile balance in cross-strait relations and Beijing's fear that Hong Kong could become a base for subversion. The sensitivity of the issue has already become apparent, with a ban of the public display of Taiwanese Nationalist flags on this year's "double tenth" - the anniversary of the revolution which gave birth to the Republic of China under Sun Yat-sen, founder of the Nationalist party.

A bigger test will come with new legislation on subversion, due to be passed by the legislature elected in May's poll. That vote will provide a measure of the new administration's mettle. Rules restricting the size of the franchise for electoral colleges have already been condemned.

While legislation affecting civil liberties, democratic development in Hong Kong and China-Taiwan relations may prove the most visible benchmarks of Beijing's stance, perhaps the most significant threat to the territory's autonomy comes from within. Opinion is divided over the extent to which self-censorship in the media has increased since the handover, but elsewhere there have been signs of second-guessing the new sovereign.

One example is the case of the film industry, where two recent Hollywood productions about Tibet failed to find distributors in the territory. "It is a very sensitive subject, we did not want to get into trouble," said Tony Wong, head of Cinematation Films.

Mr Wong describes his stance as a business decision, arguing that the films would draw small audiences in Hong Kong. Like Beijing's role in Hong Kong, such actions are also low profile. But as far as the territory's autonomy and identity are concerned, they are much less welcome.



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POLITICS • by Tony Walker

Competent start for Jiang

The president has yet to convince sceptics he can push through further reforms

It has been a satisfactory year for Jiang Zemin, China's president. The death in February of Deng Xiaoping, China's patriarch, allowed Mr Jiang to emerge at last from the shadow of his mentor.

It had been a long apprenticeship. In the end Deng's lingering departure weighed heavily, not just on Mr Jiang's own aspirations to be regarded as leader in his own right, but also on decision-making.

The death of Deng, long anticipated, was in a sense well-timed for Mr Jiang, occurring as it did at the beginning of a critical year in Chinese politics.

Indeed, it was almost as if Deng's departure for his "meeting with Karl Marx" was choreographed, coming after the Spring Festival holiday, but well before testing events such as the Hong Kong handover and the 15th Communist party congress.

This allowed his successors to deal efficiently with his funeral without distraction. More importantly, it provided Mr Jiang with time to assert control.

Following a pattern apparent since his surprise elevation to leadership of the Communist Party in 1989, in the midst of student demonstrations, Mr Jiang has done better than expected.

He has, it seems, been much under-estimated, although reservations persist about his ability to deal with a crisis.

That may come soon enough if China's economy continues to slow and Asian economic turbulence erodes Chinese exports and inflows of capital. Slowing growth, business failures and rising unemployment constitute one of China's nightmare scenarios.

But for the moment China's leader can be well satisfied with developments. In a year when much might have gone awry, things have probably turned out better than anticipated.

He has been lucky, although as a western official responsible for monitoring China's internal affairs

says: "To some extent you make your own luck - and he has certainly exploited opportunities presented to him."

Starting with Deng's funeral, Mr Jiang seized the initiative, making the running in a crucial internal party debate about economic reform. He has also appeared more self-confident on an international stage.

His speech at the central party school on May 29, outlining new ideas for the economy, was in some ways the keynote address of the year, rivalling in importance his report on September 12 to the party congress itself.

The party school speech, which dealt with the controversial issue of privatising state-owned enterprises, became a blueprint for policies enacted later in the year.

Mr Jiang used the occasion effectively to pre-empt diehards opposed to a sell-off of state assets.

It was skilful politics and underscored what has become more apparent in recent months - that China's leader is well served by a shrewd "kitchen cabinet" of advisers who have managed his emergence effi-

ciently.

Mr Jiang's efforts to consolidate control have also not been harmed by opportunities presented by the Hong Kong handover and a Washington summit. These highly visible events have helped in his transformation from pretender to "first among equals" in a collective leadership.

In the process, he has shown himself to be less of a wooden, programmed technocrat than had seemed the case in earlier years. Indeed, during his US visit Mr Jiang exhibited an unexpected and good-natured acumen for public relations.

But for all these strides forward China's leader is hardly likely to be in a position to exercise power as his predecessors. As a member of a collective he must resolutely engage in factional politics to shore up his position and advance the interests of his supporters.

The leadership line-up to emerge from the party congress is, generally speaking, pro-Jiang, but is also broadly representative of factions within the party.

Much has been made of the retirement of Qiao Shi, formerly number three in

the hierarchy and a presumed rival of Mr Jiang's, but in a sign that Mr Qiao's influence persists, the new seven-member standing committee of the politburo includes a Qiao-protégé.

The standing committee is composed of tough, experienced cadres who may show deference to Mr Jiang, but each is powerful in his own right. (In rank order the standing committee is: Jiang Zemin, Li Peng, Zhu Rongji, Li Ruihan, Hu Jintao, Wei Jianxing and Li Langling).

What distinguishes the seven men (there are no women in the highest echelons of the leadership) is that they share a broad commitment to economic reform.

and are, for the most part, modernisers.

But the question is: do they share Deng's boldness of vision and, more to the point, his willingness to take risks, to advance reform?

Mr Jiang has shown himself to be an adept politician. However, he has some way to go to convince sceptics that he has what it takes to drive China forward to the next stage of reforms.

This includes building a genuinely mixed economy with a modern banking system. Mr Jiang is also far from tackling the difficult issue of political liberalisation. In spite of a successful year, he cannot afford to stand still.

PRIVATISATION • by James Harding

Uncertainty clouds path to sell-offs

Beijing needs to sell state assets but it does not want to rush the process

There is a joke, apparently of Polish origin, doing the rounds in China: What is the definition of state enterprise reform? The sale of enterprises of unknown value, which nobody owns, to people with no money.

Since President Jiang Zemin told a congress of the ruling Communist party in September that the government would seek greater diversity of ownership to improve the efficiency of state enterprises, the questions thrown up by that quip have needed all the more urgent answers.

The sale of state companies is set to proceed with greater vigour, but uncertainties cloud the process: Who owns the enterprises? How do you value them? And who will be allowed to buy them?

At the Party congress, Mr Jiang said China should "quicken the pace" of state enterprise reform, including "re-organisation, merger, leasing contract operation, joint stock partnership or sell-off". The landmark address gave the green light to widespread capital restructuring in China's state sector by reinterpreting the Marxist tenet of ownership of state assets by the proletariat to allow for greater "public ownership".

But Chinese officials have emphasised that Mr Jiang has not sanctioned mass privatisation. "We will probe the best way to improve public ownership, but privatisation is out of the question," Zhang Zhigang, vice-minister of the state economic and trade commission, said shortly after the congress.

Beijing has acknowledged that the debts and inefficiencies of the country's 370,000 state enterprises are too great a burden for the state to bear, but it does not want to rush the sale for fear of being accused of a disorderly and undervalued divestiture of state assets.

Nor could it feasibly transfer the bulk of state companies into the hands of the Chinese public in a hurry because of the structural issues which need to be resolved. Over the years, the ownership of state enterprises has become an increasingly complicated issue, as cross-shareholdings have blurred the lines of ownership and control.

Rivalries between municipal, provincial and national entities - which pay tax at different levels to different government authorities - have knotted the structure of authority and responsibility. And the thorny question of property rights has yet to be clarified. The effective power of shareholders to govern the enterprises which they own - or will own - is also unclear in a country which has recognised the legal rights of shareholders but where the Communist party has the ultimate authority. The new economic structure threatens to sit uncomfortably with the existing political system.

Given the uncertainties surrounding ownership, the valuation of state enterprises is a murky business, made more difficult by the inadequacy of the domestic

auditors. It is also hard to judge what some of China's larger state-owned enterprises may be worth, while the future welfare responsibilities of a bloated state sector workforce have yet to be hammered out.

The problems associated with a vast workforce and the looming prospect of mass redundancies in China's state enterprises - particularly among the tens of millions of workers at the 118,000 industrial enterprises - will also force a cautious approach to streamlining state industries.

In the light of the theoretical constraints on ownership and the coarseness about lay-offs, one of the most common measures taken by state companies since the party congress has been to transfer their enterprises into shareholding businesses, selling stock in the company to the workers.

They may not be the investor group with the greatest resources available for companies badly in need of capital - workers at state industries in Shanghai, for example, earn about Yn800 a month - but selling shares to employees fulfils Mr Jiang's call for greater "public ownership" that can greatly promote the growth of "productive forces". The drive to diversify ownership will ultimately mean a quicker rate of listings of state enterprises on stock markets, both Chinese and international. But, so far, there has not been the bonanza of state company sell-offs that some analysts had anticipated.

The China Securities Regulatory Commission, the watchdog for China's domestic stock markets in Shanghai and Shenzhen, have said new listings will come gradually and be modest in size. This statement was intended to quell investors' fears that a rash of new issues will dilute the fledgling markets and send share prices tumbling. Chinese officials have also signalled a cautious approach to raising capital on overseas markets. Hong Kong is the favourite for mainland Chinese companies planning big issues, but the financial turmoil in Asia's market and the recent challenge to the Hong Kong dollar have unsettled China's regulatory authorities as well as managers of large Chinese enterprises.

In some quarters, there is also political resistance to transferring even partial ownership of China's prized state companies into foreign hands.

Mr Jiang's address to the party in September gave much-needed impetus to state enterprise reform in China, but has also exposed many of the uncertainties that may clog the process. Chinese officials say the government ultimately wishes to transform the ownership of the vast majority of companies, maintaining control over about 3,000 core enterprises. And if they can resolve the problems, Mr Jiang may have the last laugh.

As Tao Dong, head of China research at Schroders Securities, puts it: "A successful transition of the state-owned enterprises into market-oriented corporate bodies will pave the way for China's next major step of economic development and possibly create some internationally competitive industrial groups and conglomerates."

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INGENUITY AT WORK

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6 CHINA

BANKING • by Simon Davies

Hamstrung by their bad loans

Banks' problems must be resolved if economic reforms are to succeed

China may have avoided the worst of the recent Asian financial turmoil but it shares one significant similarity with the more troubled economies of the region - a crumbling banking system.

An estimated 25 per cent of the leading state banks' loans are non-performing, a product of an era when bank managers had little choice but to accept policy loans recommended by government officials.

The problem sparked a meeting of leading Chinese bankers in Beijing last month, attended by President Jiang Zemin, to review the options for restructuring the banking sector.

The problem needs to be resolved urgently, Mr Jiang has outlined ambitious plans for restructuring China's 370,000 state-owned enterprises (SOEs). The banking system has to play a role in allocating capital for the restructuring and it will struggle to do so while it is hamstrung by bad loans to SOEs and archaic lending practices.

Peter Churchhouse, managing director of Morgan Stanley in Hong Kong, says: "You can't expect the banks to operate as proper commercial banks until you remove their responsibility for keeping the State-owned Enterprises afloat."

So the problem for the government is twofold. It needs to resolve an estimated YNL600bn of bad loans within the state-owned banks, and it must overcome significant structural flaws within those banks, ranging from over-staffing to a lack of risk management systems.

Di Weiping, vice-president of the Shanghai branch of the People's Bank of China, says: "A lot of the banks' problems are inherited from the old system of policy-oriented loans. If there are no financial reforms, then these problems will not be properly addressed." He was concerned that even if the problem loans were removed, the banks might merely put their revitalised balance sheets behind more bad lending.

"There is a lack of internal control systems because in the past they did not need them - they did whatever the government wanted."

The problems could be exacerbated by the economic slowdown, with the latest statistics pointing to deflation. Moreover, in big cities such as Shanghai there is a glut of new buildings coming on stream just as regional turmoil has driven down office prices.

Mr Di says the first step that needs to be taken is to build a genuine barrier between the state and the banks so that old-style policy lending can be ended.

At least there is a relatively dynamic group of new commercial banks, which are better managed, but these still account for only a small proportion of bank lending. Given the size and structure of some of the state banks, it has been suggested that they will be broken up into regional banks.

Considerable job cuts will also be required, before these banks can become truly competitive, and there needs to be substantial investment in technology and improvement of credit appraisal systems.

But to become competitive the state banks need to be relieved of much of their bad debt burden.

Hong Yik-luen, head of China research at ING Barings, argues that the bad

debt problems may be less difficult to resolve. "The problems of the banking system in China have been exposed because of excessively tight monetary policy over the past two years. The government now has a great chance to reflate the problem away, without creating inflationary problems." This is a result of the substantial surplus capacity in the industrial sector.

One way of lifting the burden on banks would be to remove some of the restrictions on mortgage lending and encourage home ownership. This would help reflate the property market, taking some of the pressure off bank balance sheets. It would also feed through into the domestic economy.

Some banking analysts suggest there are also substantial foreign bank borrowings that need to be addressed otherwise any future devaluation of the yuan could provide further pressure on the banking system.

Until the domestic banks can be put on a more competitive footing, the pace of opening up the market to foreign banks will be slow.

China has been a holy grail for foreign banking groups, given high savings rates and a comparatively backward domestic banking network. Nine banks have been given a licence to lend local currency and a 11 licences are being considered.

However, Mr Di admitted that "the current policy for the experiment is too restrictive", and "the People's Bank has been encouraging the government to relax some of the restrictions. Until that happens, foreign banks will struggle to build a profitable business - but given the state of the domestic banking system, it could be a long wait."

GUANGDONG • by John Ridding

Fast track to development

The frenzy of large projects has given way to more measured objectives

Alongside the traffic lights in downtown Guangzhou there are digital timers, counting the seconds until red turns to green. Amid the frantic traffic they provide a further reminder of the fast pace of life in the southern city and surrounding Guangdong province.

Since Deng Xiaoping, China's late paramount leader, launched his policies of economic reform and liberalisation, Guangdong has been on the fast track to development. It accounts for some 40 per cent of total Chinese exports, while investment from Hong Kong and further afield has helped fuel double digit growth and a sharp rise in prosperity.

As President Jiang Zemin now takes the baton and launches a new phase of reforms, the question is whether Guangdong will remain at the vanguard of the national economy and whether its rise can be sustained.

The answers have implications beyond the borders of the southern province which has emerged as a crucible for reform and an engine for growth.

Provincial leaders and many of the foreign investors present in Guangdong are confident.

"The economy is maintaining good growth rate," says Zhang Gaoji, senior vice-governor and one of a new breed of relatively young technocrats. He cites a rise in gross domestic product of 10.5 per cent in the first three quarters of the year, with falling inflation and a 20 per cent rise in exports.

"On a medium to long-term view we are very positive on Guangdong," says Victor Chu, chairman of First Eastern Investment. "After 19 years of reform, this economy really has its own momentum now."

But there are also substantial challenges to be faced.

Guangzhou

Total GDP (1996): Yn 144.58 billion
Real GDP growth: 13.1%
Per capita income in urban area: Yn 6,578
Principal industries: Light industry, IT-tech

Sources: China Statistical Yearbook; Shanghai Statistical Yearbook; Guangdong Statistical Bureau; Chongqing Statistical Bureau

"We are confronted with some profound problems," says Mr Zhang, listing the reform of struggling state-owned enterprises, the need to upgrade the industrial structure and to balance development.

Nor are these the only pitfalls. South-east Asia's economic crisis and the devaluations which have swept the region raise questions about exports and direct investment, two of the pillars of the provincial economy. Within China, foreign commentators wonder whether the central government's priority of promoting western and inland provinces will shift the focus of development from Guangdong.

In addressing the challenges, the provincial government is making significant policy shifts. Faced with rising costs and fierce regional competition, the authorities are seeking to move from low value-added assembly operations or real estate projects to high technology projects and strategic sectors.

During the transition, there has been a hiatus in



ners, including foreign companies. Behind these moves is a strategy of cultivating independent management.

"The government will not randomly interfere with state enterprises," says Mr Zhang. The provincial government also supports state companies to acquire stock market listings. "Guangdong already accounts for a lot of China's listed companies," says the China analyst at one US investment bank.

Guangdong holds other trump cards in its development plans. Barry Cheung, chief executive of Fortune Oil, the Hong Kong-based company with interests in the province from petrol stations to crude oil transport, says the province has relatively few of the lumbering heavy industries that are causing problems in other regions. He points to the relative sophistication and international experience of management in the province, and the strong ties being built with Hong Kong.

"Over the next few years we are going to see even closer integration between Hong Kong and Guangdong," says Mr Cheung. After the migration of much of the territory's manufacturing base across the border, the next phase is likely to be increased co-operation in infrastructure. Projects to improve road and rail links are being considered, as is an ambitious HK\$20bn

scheme to build a bridge between Hong Kong and the western special economic zone of Zhuhai.

If Guangdong's ties with Hong Kong sharpen the territory's competitive edge, it faces an increasing challenge from other Chinese regions now favoured by Beijing. But Mr Zhang, however, concedes that China needs balanced development.

The senior vice-governor said Guangdong would benefit from many of the projects to develop inland provinces, such as the exploitation of natural resources and hydro-electric power. The province, he adds, is also seeking its own investments across its border. "Guangdong province invested in a tour ship in the Three Gorges, and we also invested in a cigarette factory in Wushan County."

If development priorities lie elsewhere, adds the vice-governor, the central government is still approving big projects for Guangdong. Among the most important are the new Guangzhou airport and the Guangzhou-Zhuhai railway.

There is little prospect of another frenzy of big projects which helped fuel inflation in the 1980s and early 1990s. "If we have another round of overheated capital construction that will have a negative impact," says Mr Zhang. The goal, he signals, is steadier, sustainable growth. The steady years of reform are being replaced, it seems, with the more measured objectives of maturity.

CHONGQING • by Tony Walker

A beckoning gateway

The controversial Three Gorges project is proving both a blessing and a curse

Mayor Pu Haigong of Chongqing jokes about the stresses of running the world's largest city with a population of 30m set in hilly terrain at the confluence of the Yangtze and Jialing rivers in south-west China.

"You see, I've lost most of my hair," he says, pointing to his bald pate. But Mr Pu becomes serious when talking about Chongqing's importance as "gateway" to south-west China and platform for the rejuvenation of perhaps the country's most important inland area.

"Chongqing is the new growth spot in the west of China," he says. "We want to develop the city in line with world practice."

These are bold ambitions, but Chongqing enjoys the advantages of being the hub for road, rail and waterway routes connecting western China with other regions to the south and east.

It also has a big potential market in south-west China of about 300m people; although per capita income in the region is among China's lowest.

But Chongqing, which in March this year was accorded status equivalent to that of a province, has a long way to go to rival China's other "city states" - Beijing, Shanghai and Tianjin.

Distance from the coast,

Chongqing

Total GDP (1996): Yn 117.5 billion
Real GDP growth: 10.7%
Per capita income in urban area: Yn 4,850
Principal industries: Motor vehicles and motorcycles, metallurgical industry, chemical and medical industries

Sources: China Statistical Yearbook; Shanghai Statistical Yearbook; Guangdong Statistical Bureau; Chongqing Statistical Bureau



However, the pattern is changing and larger investments are being made by international companies, including British Petroleum, Glaxo, Pepsico and Mobil. Chongqing's elevation to municipal status and thus greater autonomy from Beijing has quickened investor interest, according to Mayor Pu.

The controversial Three Gorges project on the Yangtze, which will create a dam several hundred kilometres long, is expected to provide a significant boost for Chongqing because it will make the river navigable for larger vessels.

Chongqing, which will be located at the western end of the new dam, will become one of China's busiest inland ports. Ability to transport a larger volume of goods by water will help ease pressures on an over-stretched road and rail system. One of the most severe constraints on Chongqing's development has been the cost and difficulty of transporting goods to the coast.

However, the Three Gorges is proving both a blessing and a curse. While the municipality will derive considerable benefits, there will also be costs, including responsibility for re-settling many of the 1m people whose homes will be inundated by rising dam waters.

The central government is assisting with re-settlement, but the administrative burden is falling heavily on the Chongqing's city-fathers. Mayor Pu is set to lose more hair.

The successful management of human resources is the single greatest challenge for Western companies in China.

Developing Managerial Resources in China

Ingmar Björkman, Philippe Lasserre & Poy Seng Ching

While most foreign multinationals need a number of expatriate managers in China, the case for localisation is becoming overwhelming.

Foreign multinationals who want to implement a localisation policy are faced with a range of difficulties. This report explains how companies can overcome these problems and achieve sustainable competitive advantage. This report analyses how:

- Foreign multinationals can overcome the language barrier and penetrate the intricate network of personal and business contacts.
- Authorities at central and provincial levels evaluate foreign enterprises and how increasing the

number of local employees in key positions is an important way of developing beneficial goodwill for the future.

- Limiting the number of expatriate employees can reduce costs without sacrificing competitive advantage.
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SHANGHAI • by James Harding

Forefront of reforms

The city has grand financial ambitions, but there are still hurdles to clear

Shanghai is commonly defined by past glories and future ambitions. Stand on the Bund, the hotpotch of art deco and colonial architecture that graces the city waterfront, and the pre-war splendour comes alive.

Across the brown waters of the Huangpu river is Pudong, the former wasteland that has been turned into fields of skyscrapers and construction sites to make room for China's financial centre.

But Shanghai has some way to travel before it recaptures its faded opulence or fulfils its much-trumpeted promise.

Beijing has chosen to "market test" much of its economic liberalisation programme in Shanghai, "experimenting" with foreign competition in the financial services sector, aggressive reform of state enterprises and greater financial responsibility for its citizens.

This year, the first foreign banks in China were given the right to operate in local currency. The licences restrict them to business in Shanghai and require them to move their operations to Pudong, earmarked to become China's Wall Street.

Another 11 foreign banks are waiting for central bank approval to start Chinese currency lending in Shanghai. International insurers have also been allowed to enter the Chinese market through Shanghai.

Over the past year, a couple of new Sino-foreign joint ventures and a second wholly-owned subsidiary of a foreign insurance company have been approved, all to operate in Shanghai. The first Sino-foreign joint venture trading companies were

approved this year - also to operate from Shanghai.

The municipal government sees itself at the forefront of the state enterprise reform process. Officials at the Shanghai Economic Commission say the city has overseen the merger of 700 enterprises and let 58 companies go bankrupt since 1994. Another 50 bankruptcies are planned this year.

The government has also encouraged the city's inhabitants to take greater responsibility for their own affairs by extending private ownership - notably, allowing them to take out mortgages.

"Why does Shanghai matter?" asked Richard Graham, the former head of ING Barings in Shanghai earlier this year. "Because if it doesn't work here, with all the chances that Shanghai has been given, it isn't going to work."

The evidence so far suggests it is working - even if there have been glitches. Shanghai's gross domestic product has grown at an average rate of 14.1 per cent since 1992, the year when Beijing belatedly endorsed a programme of rapid development for China's most precocious city.

The city has attracted cumulative foreign direct investment (FDI) of more than \$31.5bn in the past few years. FDI into Shanghai until last year grew more quickly than in any other part of the country. Average salaries have trebled since 1990.

Xu Kuangdi, Shanghai's mayor since 1995, expects the economy to grow by 13 per cent this year and is hoping to see the growth in gross domestic product tamed and brought down to 10 to 11 per cent by 2000. The major reason for the lowering of the GDP growth rate in Shanghai... is because we have controlled investment in real estate development," he says.

Shanghai's boom has been driven by investment, both

Shanghai

Total GDP (1996): Yn 280.22 billion

Real GDP growth: 13.0%

Per capita income in urban area: Yn 5,783.12

Principal industries: steel making and processing, motor vehicles, petrochemicals and fine chemicals

Sources: China Statistical Yearbook; Shanghai Statistical Yearbook; Shanghai Statistical Bureau; Shanghai Statistical Bureau

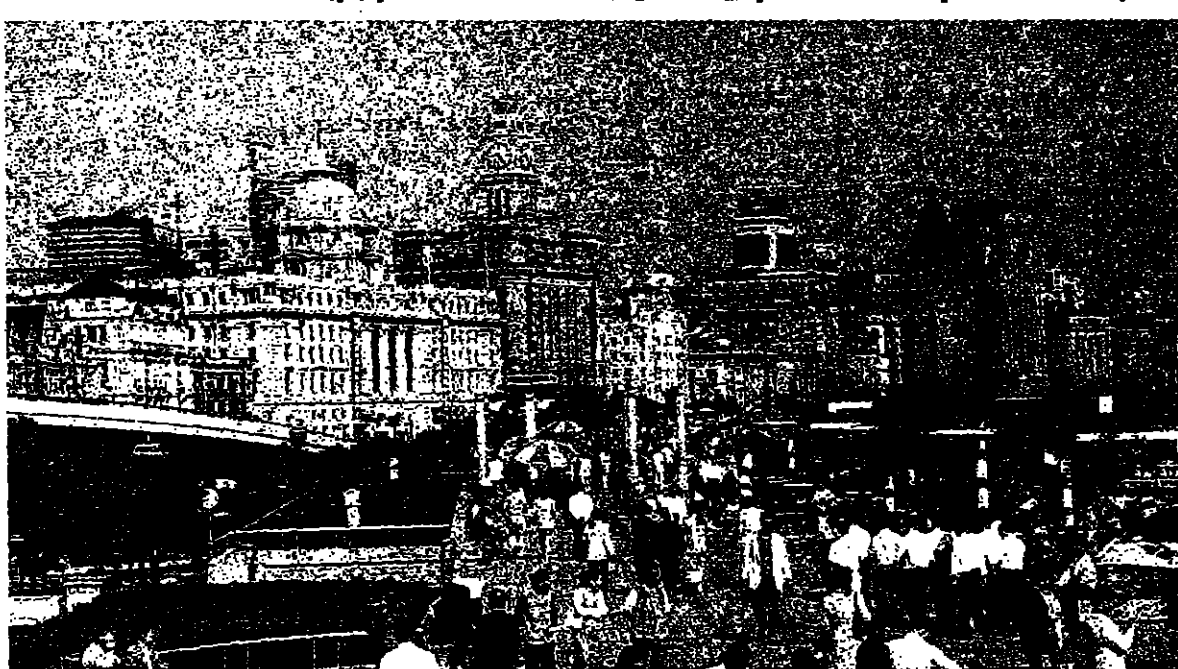
domestic and foreign. Lu Deming, an economist at Fudan University, estimates that about 70 per cent of output in recent years can be accounted for by investment and notes that investment growth has outstripped increases in consumption levels.

This bias may expose Shanghai because foreign investment levels look set to decline. Municipal officials expect foreign direct investment in 1997 will be about \$6bn, down from \$11bn last year and \$10.5bn the previous year. The burst property bubble - vacancy rates in commercial buildings in Shanghai are estimated at over 50 per cent - has also served as a warning of the dangers of over-investment.

Unemployment has become a big problem and that threatens to grow as Shanghai struggles with the redundancies created by the failure of state-owned industries.

Mayor Xu says taking the number of unemployed (those receiving a Yn270 a month dole payment) and redundant workers (those still on the books of former state enterprises and receiving subsistence pay of roughly Yn400 a month), 7 to 8 per cent of Shanghai's 4.7m workforce is unemployed. Privately, government officials estimate the number of out of work may be double the published figures.

The city needs to build a thriving services industry to absorb its growing surplus of workers. To do so its officials know it will have to create the "software" of a modern economy - the rule of law, an educated and skilled workforce, flexibility in the market and responsible regulation. The physical infrastructure will take less than a decade to build, but the legal and social foundations of a modern financial market may take longer, they say.



Shanghai's splendour survives on the Bund, a hotpotch of art deco and colonial architecture

Shenyang

Total GDP (1996): Yn 77.2 billion

Real GDP growth: 11.1%

Per capita income in urban area: Yn 4,008.17

Principal industries: machinery, building materials, motor vehicles, petrochemicals, textiles and clothing

Sources: China Statistical Yearbook; Shenyang Statistical Yearbook; Shenyang Statistical Bureau; Shenyang Statistical Bureau

SHENYANG • by James Harding

The burden of change

Grappling with the painful effects of the transition to a free market

On a freezing grey morning in Shenyang - much like any other winter morning in the largest city in China's troubled industrial north - about a thousand people gather in a small park in the hope of finding work.

Lu Xun park serves as an informal labour market for the growing ranks of jobless. It has long been a place for migrants seeking casual work, but now an increasing number of Shenyang locals laid off from state enterprises are to be found among the job-seekers.

"It is not easy to get a job here," says one Shenyang man, clutching a scrap of paper on which he has scribbled "chef". He is still on the books of a state-owned battery company, but it has run into difficulties and has stopped paying him.

Mu Suixin, mayor of Shenyang, acknowledges that the city, which was at the forefront of heavy industry in China in the years of the

planned economy, has been burdened with a leading role in handling the painful consequences of transition to a free market: mass redundancies.

"Shenyang is the place with the largest number of lay-offs in China. And it has the greatest difficulty re-employing people. This is a very serious problem," he says.

The mayor calculates that there are just over 1.3m people who work in Shenyang's state-owned industrial enterprises, of whom 380,000 are laid off and a further 200,000 face more or less imminent redundancy.

These large and medium-sized enterprises account for nearly two-thirds of Shenyang's 2.18m workforce, but less than half of the city's output. State industry sales

declined in real terms last year, suggesting that while Shenyang's non-state sector may be driving the city's 10 to 11 per cent growth in gross domestic product, a large section of the economy is being left behind.

The unemployment problem is not immediately revealed in government statistics which put the official unemployment rate at 2.3 per cent for 1996 - this does not include most workers "laid off" from state enterprises.

As China rationalises the state sector, the municipal government figures indicate that redundancies may affect nearly 30 per cent of Shenyang's total workforce and more than 45 per cent of the workers at state industries.

Anecdotal evidence suggests the restructuring of the local economy is already creating a crime problem in the city. The fear of crime is increasing as reports of domestic violence, armed assaults and robbery increase. Like the rest of China, Shenyang has prided itself on the relative safety of its streets.

Although there have been sporadic reports of worker unrest in China, Mayor Mu is adamant that the growing number of redundancies will not threaten social stability. "Life here in Shenyang is stable. There has been nobody out on the streets demonstrating against the lay-offs."

Nevertheless, finding jobs for former state workers is the main challenge facing the Shenyang government.

The most promising avenue of re-employment in the short-term is the expanding non-state sector. Shenyang's flashy new entrepreneurial class is arguably more con-

spicuous than the unemployed.

More than 500,000 people in Shenyang are self-employed or working for private companies. While output at large and medium-sized state industries rose only 2.4 per cent last year, the value of sales produced by collective enterprises together with non-state businesses rose by 27.2 per cent.

Shenyang is also hoping foreign investment will help to take the strain of its economic changes. Since the start of China's economic liberalisation in the late 1970s, it has attracted \$3.3bn, but is hoping that figure will increase rapidly in the next few years.

The restructuring of the city's economy, away from heavy industries and towards an expanded tertiary sector, is aimed at reinvigorating the jobs market.

The tertiary sector now accounts for 49.3 per cent of the city's economic output. "So it has a strong capacity to contain more laid-off workers", says Mayor Mu. He promises the government will try to develop tourism as well as financial services.

Ultimately, the success of the Shenyang economy will hinge on the progress it makes in reforming state-owned enterprises. A handful of the city's companies are pursuing the central government's policy of capital restructuring. The Shenyang Alloy Corporation, for example, long ago became a joint-stock company and has since issued shares on the Shenzhen stock market. It has cut its workforce from 1,000 to just over 700 and the number is expected to fall to around 550.

Jin Yongcai, director of the company, says the process has been accelerated by a recent merger which made the state a minority shareholder. "The change has improved the efficiency of the company."

The implication for the Lu Xun park labour market in Shenyang is that the crowd is likely to get bigger before it gets smaller.

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Nonetheless, savings rates are high. The banking system is sitting on vast underused deposits and there are substantial hidden savings within the economy. As interest rates come down further, capital will be looking for higher returns elsewhere, which will help the government allocate capital resources more efficiently.

There is another significant advantage to the state of expanding the stock market. Mr Tu Guangshuo, the new president of the Shang-

The development of a broader capital market for raising long-term debt also looks distant. In theory, bonds would be the obvious method of funding state enterprise reform without

**Photos: Reuters**

In addition, the government has been keen to concentrate demand for bonds on its own sovereign issues — although outstanding trea-

Joe Zhang, senior economist at Credit Lyonnais,

said: "When the capital markets get to a certain size, the banks will scream. Good companies will not need banks, and banks do not like bad companies. The banks will try to frustrate the listing process by lobbying government to put up barriers."

Nonetheless, the cost of China's economic restructuring will be such that the capital markets look set for a period of substantial growth.

Tightened tap stems flow of issues

Last week, CNAC, the commercial arm of China's aviation regulator, said it would go ahead with its listing plans, having earlier announced a delay. The news raised hopes of a resumption of "red chip" activity, although the

Despite the hiatus, most serious commentators see little cause for concern.

In recent years the number and size of companies heading across the border to raise funds has grown by leaps and bounds. Proceeds from initial public offerings of red chips, the Hong Kong arms of mainland conglomerates or government agencies, and H-shares, the Hong Kong listings of state-owned enterprises, raised more than US\$8bn during the

Tentative signs of a return to the Hong Kong market have already emerged. Apart from CNAC, Tianjin Development, the business arm of the eastern city's government, is pressing ahead with a roadshow. Beijing Enterprises, the commercial arm of the capital's municipal government,

But while the listings may resume, the recent upheaval is likely to have lasting effects. "Red chip fever is a thing of the past," says the head of corporate finance at one US investment bank, referring to the speculative surge which pushed shares to unsustain-

Ahead of July's transfer of sovereignty, the CSRC, China's markets regulator, introduced tighter regulations on asset injections. The move was prompted by political sensitivity of state asset sales and fears of "hot money" flowing south across the border.

Market regulators in Hong Kong expressed similar misgivings. "We have a new segment in our market

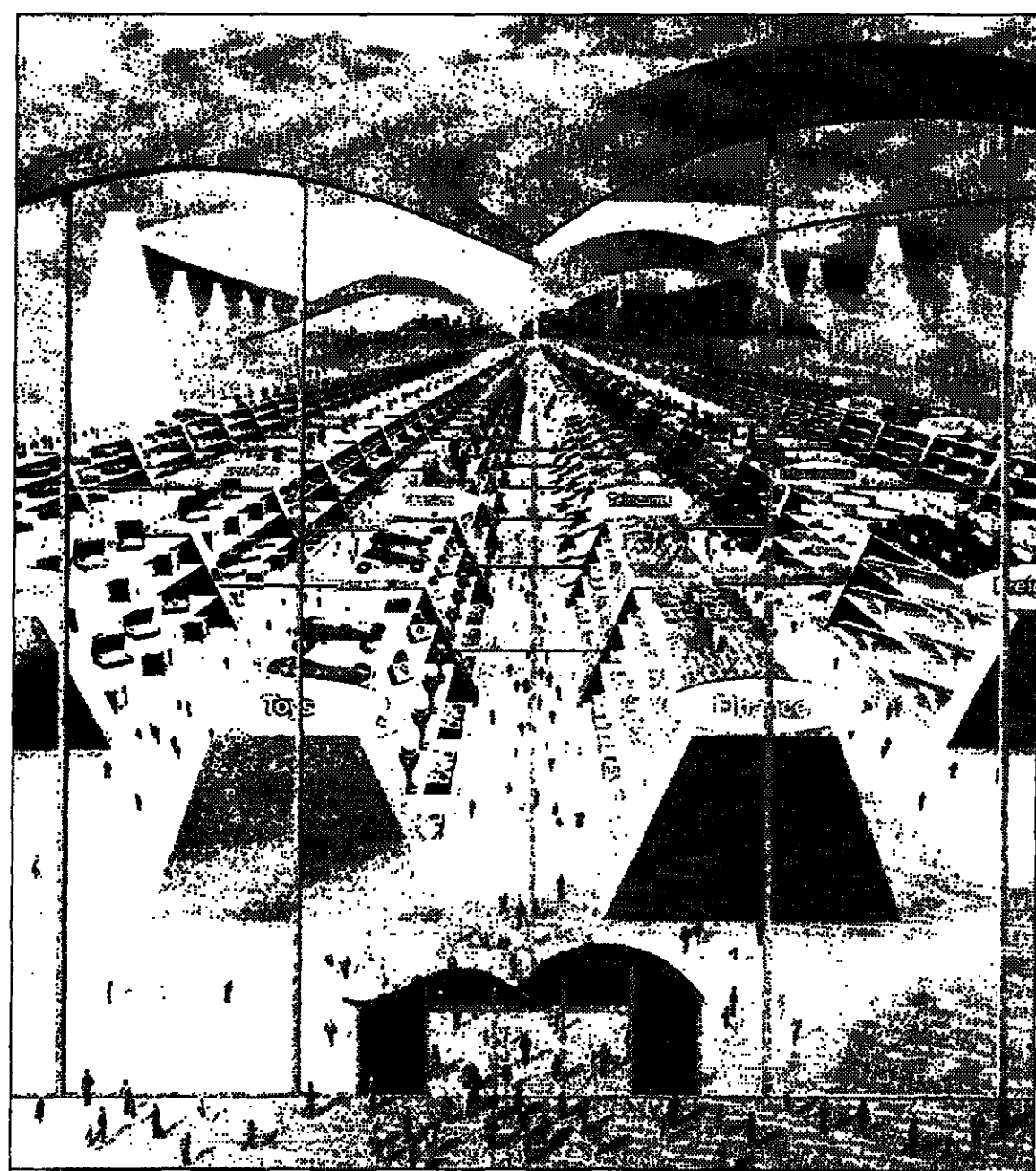
Investors are now likely to be much more discriminating. As a result support for issues will depend on the quality of existing businesses, rather than vague promises of future asset injections, and demand will tend towards established enterprises.

One example is China Telecom, the country's largest overseas issue and the sole channel for interna-

market falls, the US\$484 million public offering, fell by 10 per cent on its debut. But within a few days the company had regained its poise and now trades at a healthy premium to the HK\$11.68 issue price.

Others may find the going a lot harder. "I just see a lot of companies listed on the moment would not get off the ground if their IPO were today," says one corporate finance executive.













The question becomes one of the mainland's willingness to sell on more difficult terms. Such is the pressure for industrial restructuring, however, that momentum should be regained. As one investment banker puts it: "I don't see the market as deep flowing, even if the tap has been frightened."



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 Sino Land Co. Ltd. US\$245,000,000 April 1997	 Pallway Finance (C.B. 2002) Ltd. US\$210,000,000 March 1997	 China Merchants Hai Hong Holdings Co. Ltd. HK\$237,359,200 January 1997	 China Travel International Investment Hong Kong Ltd. HK\$1,512,000,000 January 1997	 Ryoden Development Ltd. HK\$378,000,000 January 1997

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WORLD PULP AND PAPER

A different approach will transform one of the most fragmented of industries, says Maggie Urry

A mantra for future success

Consolidation. Globalisation. Specialisation. These buzz words provide a new mantra for the pulp and paper industry as it tries to reduce the volatility of its business cycle.

For decades the industry has struggled with its boom and bust character. Those in the industry feel as queasy as fairground customers while watching profits rise and fall like a turbulent rollercoaster.

Investors feel equally unsettled by the uncertainty of the returns. As a result, the industry has been given a lowly rating by stock markets.

There are obvious reasons for its cyclical nature. The industry is highly fragmented. It operates capital-intensive, continuous-process plants. And many of its products are commodities that are traded around the world, largely on price. It is because of these inherent problems that the industry is adopting this new mantra. According to Thomas Brodin, European paper analyst at Salomon Smith Barney, "The paper industry remains one of the most fragmented industries in the world." He estimates that in Europe, the 10 largest producers have barely 50 per cent of the market. This is the second most concentrated region in the world, after Japan.

But the position in Europe has improved dramatically, he says. In 1980, the top 10 producers owned 20 per cent of installed capacity.

By consolidating and thereby gaining larger market shares, companies believe they can begin to control rather than be at the

mercy of their markets. Capital investments can be planned more sensibly, so as not to disrupt the markets.

All too often in the past, an upswing in the market has persuaded rival companies to add new capacity at the same time. The long lead time involved in building a paper machine or pulp mill usually means they come on-stream just when the upswing is ending, the extra capacity being the final straw that pushes prices sharply down.

Rumours in the market suggested that the long, on-off relationship between Repola and Kymmene, which resulted in the birth of UPM-Kymmene, took place at the point it did in 1995 after Repola announced a plan to build a new lightweight coated paper machine just as Kymmene was considering the same option. According to some, the prospect of both projects proceeding could have destroyed the market and this pushed the two companies to the negotiating table.

Globalisation follows from consolidation, as well as from the tradeable commodity aspect of the industry's products. According to Eugene van As, executive chairman of Sappi, the South African-based group, there are many advantages to being global.

Sappi has acquired businesses in North America and Europe, and now has sizeable market shares for its coated wood-free paper in those markets as well as its home market. One benefit has been that it can transfer technology developed in one market to another.

A second advantage is that many of its customers are becoming global and want to use the same paper around the world. Mr van As offers the example of a leading car company, which produces brochures around the world, now wanting to use the same quality of paper everywhere. "There is merit in saying 'I can deliver it everywhere you make your product,'" says Mr van As.

Another reason he believes going global is important is that "the combined cash-flow of a global organisation can much more easily fund the development of capacity". With Sappi's recent purchase of KNP-Leykam in Europe, it acquired a brand new paper machine sited in Gratkorn, Austria - for much less than it would have cost to build.

The machine can produce 470,000 tonnes of paper a year. "It's a monster machine," says Mr van As, "with the capacity to supply half the British market or half the German market. It will even supply 12 per cent of the North American market." Such huge investments mean new machines are "so big that they can't live in their own little domestic market", he says.

This concentration of capacity in fewer hands imposes a much stronger discipline on producers. Says Mr van As: "We have a vested interest in not wrecking the market." Prior to this, when a new machine came on stream, the owner had to sell its production and the temptation was to dump it wherever he could.

The acquisition of Gratkorn adds 7 per cent to Sappi's worldwide capacity. Mr van As says: "We're not going to let 7 per cent wreck 93 per cent." With larger market shares, companies can exert greater discipline when timing new capacity.

Consolidation and globalisation are being achieved through a wave of mergers and acquisitions that has swept through the industry. Mr Brodin lists a series of landmark deals. In North America, for instance, there have been mergers in the tissue sector of Kimberly-Clark and Scott Paper in 1995, and between James River and Fort Howard forming Fort James in May this year. And in newsprint, Abitibi-Price and Stone Consolidated, agreed to merge in February.

In Europe, important deals include the merger in Finland between Repola and Kymmene and that between Enso-Gutzeit and Velluxto in May 1996. SCA, the Swedish group, this summer moved to acquire the outstanding shares in PWA of Germany, left after its initial purchase of a majority stake in 1995. Like the big North American deals, this has brought consolidation in the tissue sector. The third Finnish paper group, Metsä-Serla has struck several deals, including a tie up with Myllykoski.

And three other deals announced in the last few months are considered "very significant" by Mr Brodin. They are UPM-Kymmene's alliance with April, the Asian group, and its purchase of the Blandin mill in the US, and Sappi's acquisition of KNP-Leykam mentioned earlier.

The notable element to these three deals are that they are across continents. After consolidation in domestic markets - including the dramatic reduction in the number of paper groups in Finland - moves in Europe or North America have meant "globalisation is suddenly kicking in," says Mr Brodin.

He says the deals in the tissue sector "changed the landscape". In Europe, the top four tissue groups now have 84 per cent of the capacity and in the US the top four control 79 per cent. But there is still a long way to go. Abitibi-Consolidated may be the largest newsprint producer in the world, but it has only 10 per cent of the global market.

Trade flows around the world are changing as the southern hemisphere producers grow in size. The example of Asia is significant. In the past, Asia was an export market for many northern hemisphere producers, but now the region is becoming an exporter itself, particularly of pulp and fine paper. Whether this development is thrown off course by the recent turmoil in Asia remains to be seen.

Mergers and acquisitions are likely to continue for some years to come. But such activity will probably include disposals as well. Specialisation - the third

word of the industry's mantra - will mean the shedding of non-core activities to focus on strengths. In the past, companies have often wanted just to be big, now they want to be big in a specific product in order to benefit from large market shares. Giants of the industry - including International Paper, the largest in the world - are now divesting activities which they consider non-core.

The hope is that such moves will mean a less volatile cycle in profits, and higher returns. The ultimate goal, says Mr van As, "is to create some shareholder value, something which we as an industry have been singularly unsuccessful at in the past".



For many decades, the pulp and paper industry has been fragmented, struggling with its boom and bust character. These days consolidation, globalisation and specialisation provide a new mantra for participants in the sector as they attempt to reduce the volatility of the industry's cycles and look to the future.



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Paper in balance with the environment

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2 WORLD PULP AND PAPER

PRICE TRENDS • by Deborah Hargreaves

A bad time to swamp the market

The financial crises in east Asia have exacerbated already apparent problems

Executives in the pulp and paper industry had just begun to look for an improvement in prices in October following widespread consolidation in the industry, when the financial turmoil in Asia forced them to throw out most of their previous assumptions.

Currency devaluations and tumbling stock markets in countries such as Indonesia and Korea are putting pressure on the pulp price, which now looks more likely to go down rather than up in the coming weeks.

The past two years have seen pulp prices stuck at a low level following a collapse in the market in 1995. The weak market forced companies to consolidate with a handful of large, global deals announced this autumn.

Optimistic industry executives predicted that, at last, they would be able to push through price rises for pulp and see them accepted.

The financial crisis in Asia has, however, led to demand from the region drying up in recent weeks. Asian mills are also under increasing pressure to maximise their cashflow, which could mean producing rising tonnages for the world market.

There is a good chance prices will decline now as we are seeing spot prices trad-

ing below list prices," says Dennis Christie, pulp and paper analyst at James Capel, the London brokers. Most companies are quoting \$630 a tonne for northern bleached softwood kraft pulp - the industry benchmark - but pulp is changing hands at \$580 a tonne on the spot market. Prices have slipped as low as \$540 a tonne for spot sales in Asia.

Asian mills have only recently become important to the pulp and paper market - until recently the region was a net buyer of pulp. But now Asia provides 5 to 10 per cent of global market pulp which, despite being lower in quality than the European and North American material, is still an important factor in determining prices.

European and North American mills have tried to counter the new competition from Asia by merging in mature markets and becoming global competitors by moving into new regions. Five mergers were announced in September and October this year, including the purchase by UPM-Kymmene, Europe's biggest pulp and paper producer of Blandin Paper, one of North America's largest producers of magazine-grade paper.

But the market remains plagued by over-capacity. Mr Christie estimates that there is still 12 to 13 per cent over-capacity that will continue to cast a shadow over pulp and paper prices.

Pulp prices currently comprise some 85 per cent of the costs of producing uncoated,

low-grade paper, which makes it difficult for paper producers without an in-house pulp supply to be profitable. Integrated producers can lose money on their pulp while making a profit on paper and vice versa, but many companies are not integrated in this way.

Paper producers have not had much more success than pulp suppliers in pushing through price rises in the past couple of years, although there have been stronger prices in some grades. Salomon Brothers, the US broker, has forecast actual price drops for three paper grades this year with fine paper grades showing modest increases.

Paper producers are looking for a drop of some \$50 a tonne in pulp prices to ease their cost pressures -

manufacturers of most grades find it hard to make a profit unless pulp costs are below 75 per cent of their overall costs.

The pressure on the pulp price is exacerbated by the fact that pulp stocks are at their highest point for three years. This makes paper producers better able to resist any price rises posted by the pulp mills. If companies start de-stocking this will add to the weakness in the market.

The pulp market is extremely fragmented and attempts by some producers to shut down mills on a temporary basis in order to boost prices have met with mixed success. The new mills in Asia are also far less disciplined about their approach to the pulp market and are unlikely to cut production when responding to

weakening prices.

The latest weakness in pulp and paper prices shows how much the industry is trapped in a vicious business cycle which is extremely hard to break.

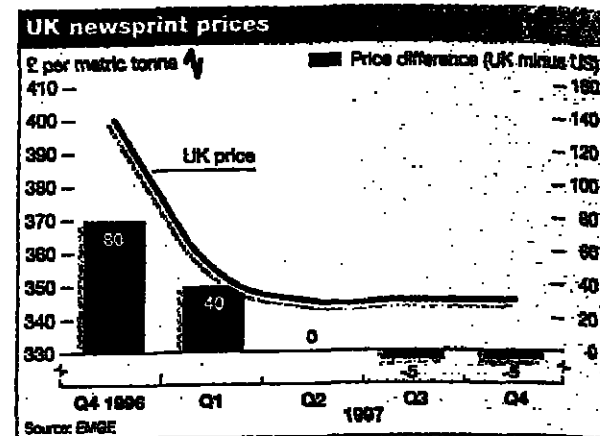
Hakan Ostling, pulp and paper analyst at Goldman Sachs in London, says the industry is slowly learning the lessons of the past and trying to break out of the price cycle. "Consolidation in the sector is extremely important and the only way for the industry to improve profitability over the cycle. But it is likely to be a very slow, evolutionary change, rather than a quick fix," he says.

While mergers and consolidation in the industry are unlikely to improve pulp and paper prices over the short term, they should have the longer term benefit of mak-

ing the leading market leaders much more powerful. If the leading companies in the industry gain more market share, they should be more willing to absorb closures in return for the higher prices that will bring in the longer term.

The creation of a few powerful global participants would also give the companies more market clout in dealing with their buyers, making it easier for them to push through price increases. But Mr Ostling points out that for some grades of paper, the industry is so fragmented that only massive consolidation would produce these benefits.

"Harsh reality suggests that there is no quick or easy solution to the industry's structural problem. Consolidation is altogether sound and should continue,



but it will be an evolutionary process that won't measurably improve stability in the foreseeable future," he says.

In the meantime, the outlook for prices during the rest of this year and early next is not rosy. A strike since September at the Canadian operations of the New Zealand producer, Fletcher Challenge, has kept some pulp capacity off the market, but looks likely to soon be resolved. The restart of pro-

duction in British Columbia will depress prices further.

At the same time, companies are still opening new capacity with around 500,000 tonnes of additional plant coming on stream in November alone. The financial turbulence in Asia also continues unabated.

The industry may resolve its cyclical and structural problems over the longer term, but it still needs to weather the storms ahead in the next few months.

PULP FUTURES • by Greg McIvor

Smoothing out the peaks and troughs

Two schemes aim to hedge risk and moderate ups and downs in profitability

Forward planning has never been the forestry industry's strongest characteristic. For years, companies have displayed an impetuous approach to investment in this most cyclical of sectors.

Typically, the pattern goes something like this. When prices rise, producers seek to take advantage by boosting capacity. New plants take a couple of years to build, by the time they come on stream, prices are often past their peak. The extra capacity floods an already-softening market with excess stocks, turning a slow down in prices into a steep descent.

The inability of paper companies to co-ordinate new factory starts has pushed pulp and paper prices up and down. The price of long-fibre pulp - the key raw material

of paper and packaging - rose from \$80 a tonne in late-1993 to \$1,000 a tonne by the end of 1994, only to fall back to \$300 by the end of that year. Prices are now on their way up again, currently at just over \$900 a tonne.

This sort of volatility was the trigger behind the launch this year of two schemes for trading forward contracts in pulp.

The schemes, in Helsinki and London, see pulp futures as a way of helping producers, traders and buyers to hedge their financial risk and smooth out the ongoing peaks and troughs in profitability.

The Finnish Options Exchange offers forward contracts based on cash settlement. Prices are calculated using an index compiled weekly from information supplied by more than 30 companies.

At the UK Pulpex bourse operated by OM, the Swedish derivatives exchange operator - via its London Securities and Derivatives

Exchange - settlement is based on physical delivery.

For pulp industry watchers, the two schemes have brought one immediate benefit. They have resulted in publication for the first time of an authoritative market price for pulp.

Producers have in the past been secretive about disclosing their exact prices of the commodity. Many disclose their official list price, which has only a loose correlation with real market prices because of large discounts given to big customers.

But while the two exchanges have aided industry transparency, they have so far proved less than a roaring success. An average of just 10 to 20 contracts a day is traded in Helsinki. Anders Lindeberg, the exchange's president, admits trading is not continuous.

Moreover, the exchange has only one market-maker, Merita Bank, and just three active brokers. This is partly due to Finnish restrictions on domestic brokerages trading derivatives, but is none-

theless a considerable handicap to achieving a broad market.

Despite the fact that it launched after the Helsinki scheme, Pulpex has proved more popular. Knut Lillienau, project manager, says an average of 70 to 80 contracts a day have been traded since the expiry of the first three-month future contract on September 17.

"We are aware that this is a long process, as it was in the oil industry when they introduced a future contract," Mr Lillienau says. "As long as we get new participants into the trading and they set up strategies, we feel we are going forward."

He says that Pulpex had 20 industrial participants in September and now has close to 40, although only three or four companies trade regularly. Of these, two are North American and one is Scandinavian.

Herein lies the nub of the challenge facing the two exchanges. While many companies have been happy to

test the water by making a few trades, none are as yet using pulp derivatives to hedge risk on a significant scale.

Ulla Nilsson, head of capital markets at Enskilda Futures in London - one of Pulpex's four market-makers - puts this down to the conservatism that pervades the executive boardrooms of pulp and paper companies internationally.

"It is a very conservative industry... many companies don't have treasury departments as such. Even if they do, the people there have to convince their managements to grant approval to carry out trades," she says.

Proponents of pulp derivatives stress that hedging against price fluctuations ought to be an integral part of companies' financial management. "I find it astonishing that an industry as big as the forest industry can't predict its profitability like other blue chip industries," Ms Nilsson states.

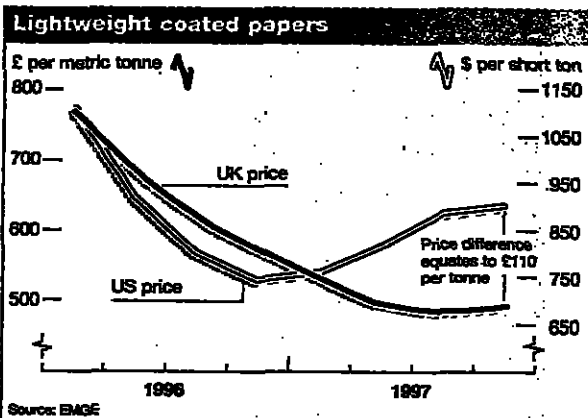
"They always blame the cycle [for variable profitabil-

ity] but that is no longer viable in today's modern world," she adds. The increasing stress on shareholder value convinces her that pulp derivatives trading will catch on. But it will take time.

Advocates of forward contracts stress they can be used not just by net producers of market pulp, but by companies that produce little pulp or are integrated producers (manufacturing pulp only for their own products) as part of managing volatility in prices of paper and packaging grades.

But the companies, it seems, remain unconvinced. The chief executive of one big European paper producer says: "For companies which are very dependent on pulp sales or purchases it might be useful, but we are self-sufficient in pulp and I don't think it will play an important role for us."

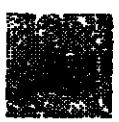
There is some way to go, it seems, before pulp derivatives graduate from interesting experiment to essential industry tool.



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PARTEK

after 10:15

SUSTAINABLE FORESTS • by Maggie Urry

Overcoming growing pains

Several countries are making strides in replanting and maintaining their forest lands

Everyone loves trees. And forests can provide an entirely renewable source of fibre to the pulp and paper industry. But history is full of examples of bad forest management, as growing populations use seemingly endless forests for shelter and fuel.

Now the forest industry is acutely aware of environmental issues, and sustainable forest management has become an important development. But the issue is increasingly controversial, as the industry is divided over different standards and certification systems. And there is the matter of cost.

In 1900, the US government became concerned about the country's forest resources. For years, America had exploited its forests to provide lumber for the country's economic expansion, says Michael Buckley, of the American Hardwood Association.

The government commissioned a survey of the nation's hardwood forests and found that at the rate trees were being cut, there would be few left by 1945. Since the trees took an average of 100 years to grow, the US forest service realised it would have to take action fast to avert a crisis by the middle of the century.

In 1945 another survey was undertaken. By then, the action taken early in the century had produced excellent results, and the second survey found the forests had in fact expanded since the first survey was taken.

Similarly, in Europe, the Swedish forests had been plundered for 300 years to supply the continent's timber needs. By the late 19th century, the shortage of for-

est had become increasingly acute, says Jan Remröd, director general of the Swedish Forest Industries Association.

By the end of the last century, the first modern silviculture legislation had been enacted in Sweden. "This triggered a restoration of the Swedish forests, which in our history is called the first green movement," says Mr Remröd. Since then, Sweden's timber stocks have roughly doubled.

Thus, the idea of managing forests to produce a sustainable yield of timber is nothing new. Mr Remröd says: "Sustainable forest management today is far more than growing trees in a sustainable way. The challenge is to combine timber production and biodiversity - and I think this is fully possible."

In the late 1980s, environmentalists had become increasingly concerned about the effect forest products companies were having on the environment. Kathy Bradley, of the Paper Federation of Great Britain, says: "Every paper industry-related trade association was inundated with letters and enquiries from concerned consumers."

The industry was stung by the accusations hurled against it, not only on forest management but over issues such as chlorine bleaching. Ms Bradley admits the industry initially responded badly. Now, she says, it has met the challenge.

Over the last 10 years, there have been significant moves towards meeting environmentalists' concerns. The 1987 Bruntland Commission on environment and development, concluded sustainable development meant "development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

A ministerial conference in Helsinki in 1993 on the

protection of European forests, defined sustainable forestry management as "the stewardship and use of forests and lands in a way, and at a rate, that maintains their biodiversity, productivity, regenerative capacity, vitality, and their potential to fulfil, now and in the future, relevant ecological, economic and social functions, at local, national and global levels, and that does not do damage to other ecosystems".

Companies started to realise that there was a marketing advantage in describing their products as "environmentally friendly". However, such labels proliferated, and soon consumers began to mistrust them.

What was needed, many realised, was some system of certification to reassure consumers. In 1993, a group of environmentalists, indigenous peoples, and forest owners formed the Forest Stewardship Council (FSC) to attempt to harmonise the variety of forest product certification programmes around the world.

This non-governmental organisation, based in Mexico, has written a set of principles and guidelines, and began its certification programme last year. According to Eleonore Schmidt, of the FSC, it operates the only independent "third party" certification scheme in the world. So far, 4m hectares of forests worldwide have been awarded its accreditation mark.

The FSC accreditation system has been welcomed by retailers - such as B&Q, the UK do-it-yourself chain, and Home Depot, the US home improvement group. It gives them a simple way of reassuring their customers.

In Sweden, a number of leading forest companies, such as AssiDomän and SCA, agreed a national standard under the FSC guidelines and are beginning to have their forests certified.



The next generation: the industry was stung by accusations of a lack of interest in sustaining forests

Robert F. Brown AP

Although forest owners must pay for certification, a cost which can range from 5 to 70 cents a hectare, depending on the type of forest and the difficulty of access for the inspectors, companies that have completed the process can achieve higher prices for their products.

But other companies and countries disagree with the FSC system. In Sweden, Södra, the co-operative of small private forest owners, withdrew from the Swedish FSC working party in May this year.

Södra began working on its own certification stan-

dard, because it believes the FSC standards are not suitable for its small Swedish forests. But it fears it will be at a disadvantage in the marketplace as retailers take up the FSC label.

Equally, the American Forest and Paper Association has set up its own standard, the Sustainable Forestry Initiative, with which all its members must comply. The FSC regards such trade association based schemes as second party and therefore not truly independent ones. In Canada, a forest ecosystem classification has been agreed, while the UK is close to finalising a

Forestry Standard on sustainable management.

Mr Remröd is largely happy with the FSC initiative. He adds: "There will never be a global simple solution." There are too many differences between a variety of ecosystem types, and land use-history and ownership structures that require local knowledge and solutions in order to be effective. Ms Schmidt admits that the FSC system is not perfect. She says it does not make allowance for groups such as Södra's small private forest owners.

Richard Sandbrook, executive director of the Interna-

tional Institute for Environment and Development, suggests that as the paper industry is global, it must have international standards. He believes many paper industries around the world have rejected the FSC accreditation because it has been put forward by environmentalists. But he argues, environmentalists "should have the grace to admit and support" the "terrific strides" countries such as Sweden have made towards sustainable forestry.

The industry must also be prepared to pay to achieve standards which satisfy buyers. Mr Remröd says: "It is

clear that the new forestry concepts cost more money." He estimates that "the new biodiversity preserving strategies will result in a reduction in the long-term harvest levels in those areas by at least 10 per cent".

"Swedish forestry has to accept these costs," says Mr Remröd. "We need a credible verification system for forest management to guarantee that the people can use products made of paper and wood without worrying about destroying sensitive forest environments." Only then can consumers buy forest products "with a clear conscience".

INDUSTRY TRENDS • by Greg Malvor

Focus on individual core strengths for survival

To remain competitive, the sector is divesting non-essential activities

Big is beautiful in the eyes of the world's top forestry companies. The industry, for years deeply fragmented, is in the midst of a structural upheaval as companies seek to bolster their size to keep pace with an increasingly global customer base.

A wave of strategic deals which has swept across the sector this year, spanning Europe, North America and Asia, has been driven by two main considerations: a need to get closer to customers and growing pressure for greater sophistication and wider variety of products. The days when paper companies supplied a full portfolio of forestry products are fast receding. Where once individual paper mills were capable of producing a range of different paper or packaging grades, the trend now is for each to be strictly focused on a single product.

This trend can be seen in the new paper plants now being built. Enso of Finland recently opened a new mill in Oulu devoted entirely to producing 380,000 tonnes a year of coated wood-free magazine paper. Juha Niemela, chief executive of UPM-Kymmene, Europe's largest forestry group, says: "Today's machines are custom-built. The wider the range of paper that they can produce, the more they cost and the less you can achieve the sophistication in areas which are important to you as a producer."

His company and other large producers are finding it no longer makes financial sense to offer a full palette of products at a time when customers are becoming more discerning about the qualities they want from a particular grade.

Take newspapers. A decade ago, most used roughly the same kind of newsprint. Any differences were generally explained by variations in machinery between different suppliers.

Today, a plethora of newsprint grades exists. The advent of colour has transformed the market, giving newspapers an opportunity to position their products in a way not possible before. For modern newspapers, the kind of newsprint they use is now a question of marketing, not technology. Hence their increasingly varied and specific tastes.

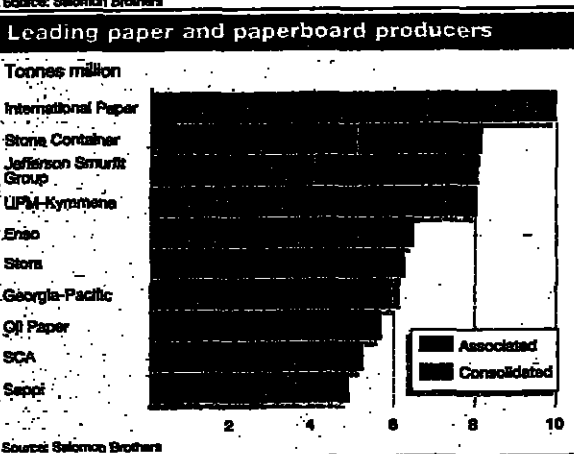
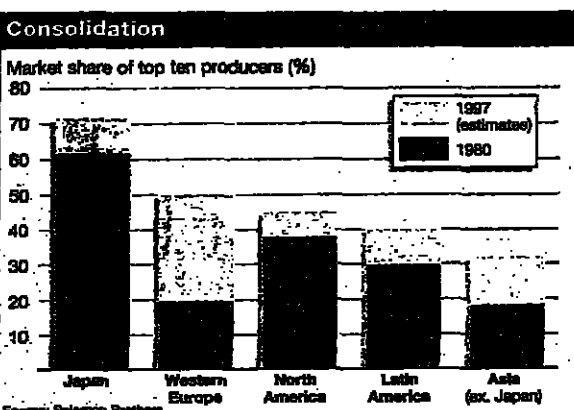
This trend is seen in the top managements of paper companies. Traditionally, executives have come from an engineering background. But as the industry has moved from being production-driven to market-driven, the new breed of executives typically has marketing or business degrees.

As companies specialise their mills, so they are also paring back their operations to fewer sectors. The quest for economies of scale and the growing globalisation of the world paper industry are forcing leading groups to narrow their focus. "You have to be where your customers are," says Jukka Huuskonen, senior analyst at Arctic Securities in Helsinki. "In a dispersed industry like forestry that calls for consolidation."

Here, Scandinavia has led the way. The deep slump in the European pulp and paper market in the early 1990s forced Nordic producers to cut costs. Companies have since busied themselves divesting non-core operations and focusing on fewer segments.

This year, for instance, UPM-Kymmene withdrew from the packaging sector, selling its operations to Metsä-Serla, a Finnish rival, in order to concentrate on just three grades: magazine paper (where it is world leader), fine paper and newsprint. Its compatriot Enso has also adopted a similar strategy, as has AssiDomän, the Swedish group, which has concentrated its operations heavily to packaging.

Others are following. KNP BT, the Dutch group, this year exited its paper business to focus on packaging and distribution. Apart from AssiDomän, the big Swedish



producers have lagged behind somewhat. But companies such as MoDo, Stora and SCA, which still operate across many sectors, are likely to follow the trends in order to retain long-term competitiveness.

Some analysts believe SCA is poised to focus more aggressively on its successful hygiene products business and may scale back its involvement in printing and writing paper. North American producers, insulated by a vast domestic market, have been latecomers to this process. Yet globalisation of capital and markets is forcing producers there to put more emphasis on shareholder value. Consolidation is now starting to be seen.

Earlier this year Fletcher Challenge Canada embarked on a sale of non-core forest assets and sold its Blandin magazine paper operation to UPM-Kymmene. Others will probably move in a similar direction.

Carl-Johan Krigström, forestry specialist at Enaklida Securities in London, says executives have learned that building capacity is no longer the prime route to creating value. "They have learned since the late 1980s and early 1990s that you don't make money by building machines; you make money by acquiring assets. There has been a change in attitude among managements."

One example is Georgia-Pacific, of the US, which is paring back capital expenditure in 1997 and 1998. Another is Jefferson Smurfit, the Irish group. "They have not built a single machine since 1964," says Mr Krigström. "Their strategy has been to acquire assets, which makes sense because asset valuations are as volatile as earnings." If you get the timing right, he suggests, you can buy assets for as little as 20 per cent of their replacement cost.

There are still some messages that you just can't send by e-mail.

In this age of global telecommunications there are still some messages that cannot be sent by electronic means. Some things just have to be said in person or put down on paper.

When your aim is to build a world-class brand, the quality of the paper you use to get your message across is very important. Many manufacturers of prestige products have come to one and the same conclusion: Metsä-Serla's papers and boards are the right choice for high quality marketing materials.

Metsä-Serla is a major European forest industry group which markets its products globally. Distribution and local service are provided by its own sales organization and leading merchants around the world.

Metsä-Serla is the largest subsidiary of the Metsäliitto Group, which is engaged in the forest industry and wood trading. Its forecast turnover for 1997 is USD 3.5 billion. Metsä-Serla's shares are listed on the Helsinki Stock Exchange and the SEAD International in London.

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PARTEK

4 WORLD PULP AND PAPER

EMERGING PRODUCERS South Africa

Rich parents cushion volatility

Using different techniques, both Sappi and Mondi are growing significantly

The South African pulp and paper industry has been spared much of the anguish brought about by the country's return to the global economy. In contrast with other sectors where manufacturers face new competition in the wake of a more liberal trade regime, tariff protection has always been relatively low and the industry remains competitive.

In spite of this strength, executives in other industries have had little cause to envy paper producers in recent years. The persistent volatility in global prices for pulp and paper has dogged the industry worldwide, and in particular Sappi, South Africa's biggest producer.

As prices plunged last year, Sappi was forced to halt production at many mills and despite improvements in 1997, the company passed its final dividend in the year to September.

Mondi, its smaller and more diversified rival, has been less exposed to the commodity cycle. An unlisted subsidiary within the Anglo American empire, and thus out of bounds to investors seeking investment in forest products, it has been less closely scrutinised than Sappi. That may change if - as managers concede is possible - Mondi's recent forays into international ventures culminate in an international listing.

Both Sappi and Mondi are well positioned to reap the benefits of firmer commodity prices in 1998. Pulp prices have risen from a low of \$380 a ton to about \$550 this year, and analysts expect the rising trend will continue. In the interim, both companies have chosen the fallow period to buy into new markets abroad.

Weak prices are not the only reason for the expansion. The dominant position of both groups in their key markets and the limited scope for expansion at home, has required international ventures. Although their strategies are radically different, both Sappi and Mondi are emerging from years of isolation to become significant global companies.

They have been helped by rich parents - the powerful industrial conglomerates that are a legacy of South Africa's siege economy.

Prior to being unbundled in 1993, Sappi was part of

Gencor, the mining and industrial group controlled by Sanlam, the country's second biggest life insurer. Mondi is a wholly-owned subsidiary of Anglo American and De Beers. That pedigree, combined with robust cash flows from their local market, has enabled both groups to secure access to capital for acquisitions.

While local demand has slowed, the move offshore has highlighted the many pitfalls of the global industry.

Eugene van As, Sappi's chairman, argues the greatest hazard is the proliferation of relatively small producers. Although global demand for forest products is rising steadily, the industry remains highly vulnerable to commodity cycles. "This is a highly fragmented market... Consumption is global, but the companies are trying to make all the products rather than focusing," he says.

Sappi wants to dominate the market for coated papers, which is growing annually by 6 per cent as the consumers - magazine publishers - evolve into global organisations. With the \$746m acquisition in October of KNP Leykam, the Dutch producer, Sappi is now the world's biggest manufacturer of coated wood-free paper.

Its three regional subsidiaries in southern Africa, the US and western Europe are wholly owned, with market shares of 80 per cent, 26 per cent and 22 per cent respectively. This makes Sappi the world's biggest producer of wood-free paper.

Under the leadership of Mr van As, the group paid out \$1.4bn for its dominant position. Acquisitions have left a trail of more than \$10bn in debt, causing Sappi's share price to be downgraded in the traditionally debt-averse Johannesburg market. The acquisition of KNP Leykam follows the \$1.4bn purchase in 1994 of SD Warren, its US subsidiary, near the peak of the last commodity cycle. But Mr van As says no further acquisitions are in the pipeline. He describes his bid for the Dutch company as "the last piece in the jigsaw of Sappi's plans to become a global business by 2000".

The expansion aims to reduce volatility by increasing the influence of the largest producers over the market price. "You place bets and gamble because the fluctuations in the apparent demand are caused, not by the actual consumption of the product, but by positions

taken by various consumers and manufacturers in holding inventory," Mr van As told the American Forest and Paper Products Association annual conference in Washington in October.

Analysts are divided over Sappi's prediction that consolidation will stabilise prices. Some doubt this strategy in the long term. Others contrast Sappi's acquisitions with those of its local rival, Mondi.

The Anglo subsidiary has charted a different course abroad. In the best traditions of South Africa's biggest company, it has followed a course of diversification to reduce total exposure to commodity cycles. Its core products are pulp, newsprint, photocopy paper and paper packaging. Its international investments are all joint ventures with foreign partners who bring both technology and management skills to Mondi's operations.

During the past two years, Mondi has acquired a significant portfolio of foreign companies. Its most important buy was 12 per cent of Aracruz, the Brazilian group which was privatised last year and is the world's largest and lowest cost producer of bleached eucalyptus pulp. Mondi also holds 50 per cent of a joint venture with SCA of Sweden to build a newsprint machine at Alsfors in the UK.

This year it has built on its European interests in Austria by investing about \$200m in eastern Europe through Anglo's international subsidiary, Mondi Minorco Paper. MMP recently acquired control of Swiecie, Poland's largest paper and packaging company; Dunaujvaros, the Hungarian pulp producer; and a 19 per cent stake in Sytyvkar of Russia.

By contrast with Sappi, where gearing on completion of the KNP Leykam deal is likely to be above 100 per cent, Mondi carries no debt at its centre. Although average gearing among its subsidiaries is 40 per cent, Mondi has used Anglo and its associates for funding.

The result is a labyrinthine ownership structure, which the group may have to unravel if it opts for a stock exchange listing. That issue is unlikely to be resolved if firmer pulp prices prompt a surge in cashflows, but it could prove to be a significant factor in deciding the outcome of Anglo's search for a new corporate structure for the next century.

Mark Ashurst

PROFILE Gratkorn mill, Austria

Machinery to match its aims

Sappi acquired superior technology with its purchase of KNP Leykam

In one of the most competitive segments in the paper industry, the purchase of the Dutch-Austrian paper group KNP Leykam by Sappi of South Africa is about to create a new global force - and much of it could be thanks to a new mill.

The purchase, which was finalised in November and will become effective on 1 January, will add 1m tons to Sappi's global production of 3m tons and will boost its European market share from 7 per cent to 22 per cent, well ahead of all competitors. And through the added market power and a better regional mix, Sappi and KNP Leykam hope to ride out the cyclical swings that have plagued the industry in recent years.

KNP Leykam will post a modest operating profit this year following a recovery in pulp and paper prices, but its net result will still be in the red because of a \$100m charge related to the modernisation of its core paper plant in the Austrian town of Gratkorn.

The area around Graz, where the Gratkorn paper mill is located, is part of a 400-year-old paper-making tradition. In 1870, Leykam-Josephthal was set up as a joint stock company

and quickly became the biggest paper producer in the Hapsburg monarchy. After the destruction of the Second World War, only the Gratkorn plant remained operational. In 1961, Leykam acquired a stake in Mürzstaler, another paper mill in nearby Bruck, and merged the two groups in 1974 to Leykam-Mürzstaler. The Bruck plant was sold just before the merger with the paper division of KNP BT in 1994.

At Gratkorn, the newest addition in the Triple Star project, the Paper Machine 11, went on-stream in October. It is the world's most productive apparatus of its kind, the company claims, with a width of 8.5 metres, a working speed of 1400 metres per minute, and annual capacity of 470,000 tons. It is designed to produce a paper weight of 115 to 200 grams per sq metre. The total length of the machine is 208 metres. The machine was built by Voith-Sulzer of Germany.

The Schöfian investment should make the Austrian plant the lowest-cost producer of wood-free coated paper in the world. Thanks to the new triple coated paper technology, KNP Leykam can also cut its input costs by using less fibres and more minerals to produce the same quality, explains Wolfgang Pfaff, KNP Leykam's chairman. Even though the company is shutting down four older machines,

annual output is still set to rise by 250,000 tons to 720,000 tons, but the number of workers will be cut from 1,800 to 1,300.

Ironically, the new machine will exacerbate the biggest problem in the wood-free coated paper market - overcapacity. The global market, currently 11m tons, has grown by 7 per cent annually in recent years and is set to increase more than 10 per cent this year because of strong demand by advertisers for high-quality glossy sheets.

Wood-free coated paper is also used for art books, other glossy print products and labels.

Prices in this sector remain fragile, however, as production capacity grows even faster than demand. Several new paper machines will start operating in East Asia soon, and Mr Pfaff fears that the economic slump in the Pacific region will cause a part of this additional output to be directed to Europe.

The link up with Sappi should strengthen the market power of KNP Leykam, which has paper mills also in Belgium and the Netherlands. Mr Pfaff is counting on synergies between his group and Sappi's US subsidiary, the former SD Warren. "I expect a major know-how transfer. We are superior in terms of production and technology, and our plants are far more efficient. But we can learn a

lot from the Americans in sales and marketing," he says.

KNP Leykam is itself the result of a merger between Leykam-Mürzstaler, the Austrian paper group, and KNP's paper operations. KNP first acquired around half of the shares in Leykam-Mürzstaler in 1988 from Creditanstalt, then Austria's largest bank. The full merger came in 1993, when KNP bought another 25 per cent of Leykam-Mürzstaler and put its Dutch and Belgian plants into the new group.

Today, Leykam-Mürzstaler holds 30.5 per cent of KNP Leykam, and 28 per cent of its shares are publicly traded on the Vienna bourse. Sappi will acquire both the 72 per cent of KNP in Leykam-Mürzstaler and the 69.5 per cent direct stake in KNP Leykam. The minority shareholders of Leykam-Mürzstaler will remain unaffected by the takeover.

From an accountant's point of view, Austria is not an ideal location for a paper mill. The country has plenty of timber and water, but also far higher energy and labour costs than competitors. Still, the long paper-making tradition and the highly skilled work force makes Gratkorn KNP Leykam's biggest plant. Gratkorn is also the company's showcase in terms of productivity, says Mr Pfaff.

Eric Frey

THE EUROPEAN INDUSTRY • by Tim Burt in Stockholm

Strategies are redefined

Companies are finding their feet again after the price swings of the early 1990s

For the first time in two years, there are signs of confidence re-emerging among Europe's largest pulp and paper companies.

Manufacturers that survived the vicious price swings of the 1990s did so by taking out capacity and cutting stocks. They have repaired their balance sheets and, at the very least, stabilised profits. Now, leaner and fitter, leading producers are looking hungrily for expansion opportunities.

Given the experience of the last cycle, their ambitions should set alarm bells ringing. After all, the root cause of the calamitous fall in paper prices in the mid-1990s was due to manufacturers responding to demand by adding excessive capacity and expanding too quickly.

If senior European paper executives are to be believed, the industry has learned its lesson. They have realised the hard way that profits are not made by

installing new paper-making machines or by trying to serve every sector of the market.

That realisation has redefined the strategies used for growth by the region's leading manufacturers. If they are seeking increased market share, they plan to do so mainly through acquisition and restructuring of existing capacity in Europe - while increasing their exposure to the growth markets of Asia

and Latin America.

SCA and AssiDomän of Sweden, therefore, have bolstered their container board and corrugated board output with acquisitions in continental Europe. Stora, also of Sweden, has announced a joint venture with Odebrecht, the Brazilian industrial conglomerate, to invest up to \$1.5bn in a new plant in north-east Brazil.

In perhaps the boldest move, UPM-Kymmene, Fin-

land's and Europe's largest pulp and paper producer, has this year announced a tie up in fine paper with Asia Pacific Resources International of Singapore. That was followed swiftly by its \$650m acquisition of Blandin Paper, one of North America's largest producers of magazine-grade paper.

At the same time, UPM-Kymmene has announced that it hopes to seek price rises of between 5 and 12 per cent - augmenting modest price rises already achieved earlier this year.

Juha Niemelä, chief executive of UPM-Kymmene, believes such price rises should be achievable if the industry keeps its head and does not, as in the last cycle, run blindly after orders. "Companies are now much more focused on acquisitions than they were in the past, and we could see a lot of consolidation," says Mr Krigstrom.

The increased acquisitiveness of European companies has been demonstrated in a wave of deals this year. UPM-Kymmene snapped up Blandin paper in October. Enso acquired 50.4 per cent of E. Heilmann & Cie, the German paper group, for DM606 in April. In August, SCA announced a DM500m bid for the 25 per cent of PWA of Germany that it did not already own.

Such moves should help European producers to strip out excess capacity in their mature domestic markets, while increasing their global presence. Certainly, the European industry looks much less fragmented and regionally orientated than even two years ago.

That consolidation has been spearheaded by the big Nordic groups, which have actively sought out acquisition opportunities in central and eastern Europe. If that process starts to slow, it may mean simply that they have run out of targets. If so, the Europeans will have to become increasingly global to maintain market share. And that means breaking out of old markets and into new ones.

If the trends established in 1997 are any guide, manufacturers have decided to do so through carefully selected bolt-on acquisitions and alliances rather than risk the head-long rush for growth which ended in such grief last time round.

Market pulp prices: West Europe

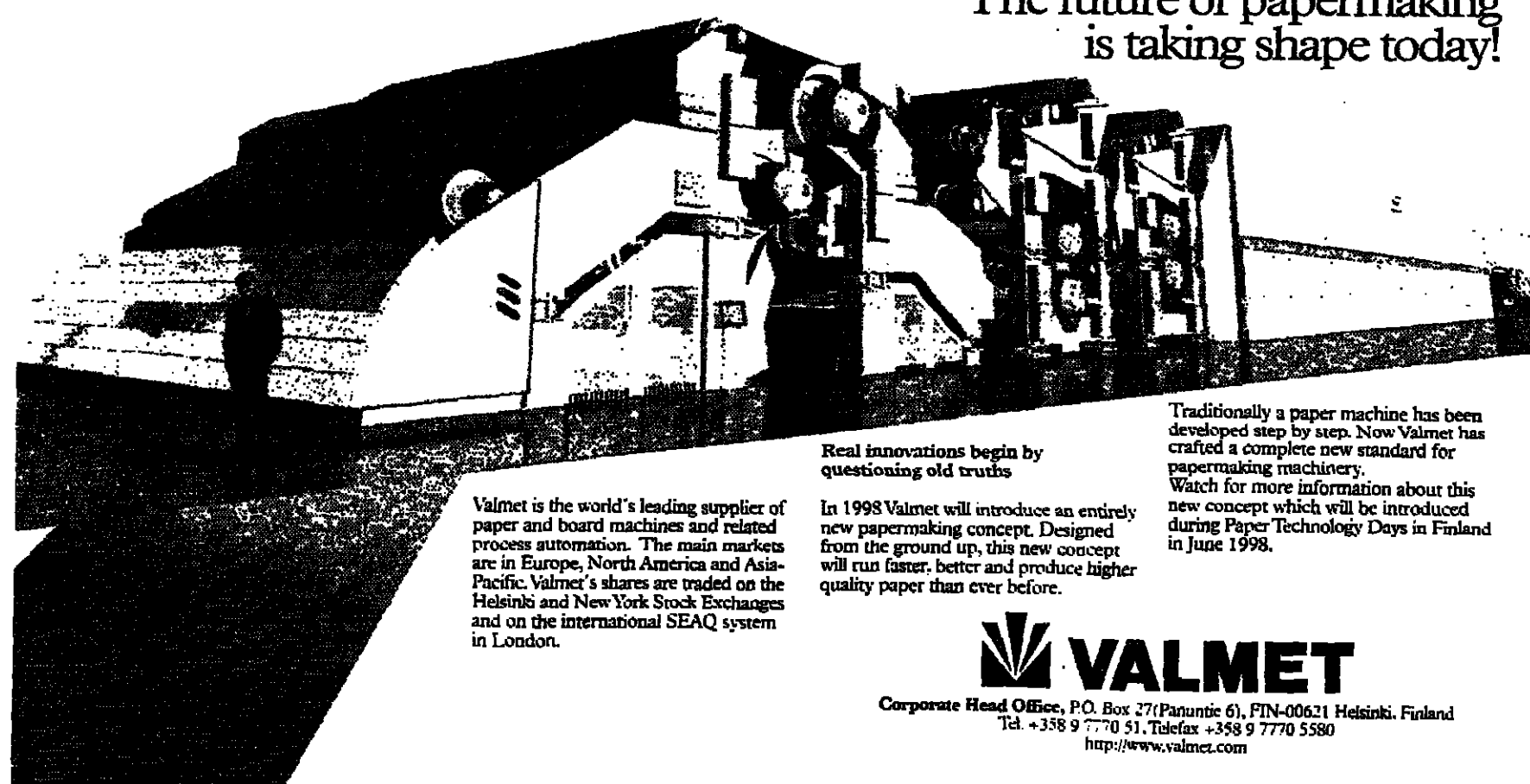
Sap/Aracruz, CLF	Northern bleached softwood kraft	Bleached eucalyptus kraft	Northern bleached softwood kraft	Bleached eucalyptus kraft	Northern bleached softwood kraft	Bleached eucalyptus kraft
1994 Jan	430	380	1995 May	525	550	532
Feb	450	395	Jun	525	550	532
Mar	460	430	Jul	525	550	532
Apr	510	454	Aug	525	550	532
May	510	465	Sep	525	550	532
Jun	560	530	Oct	525	550	532
Jul	560	545	Nov	525	550	532
Aug	630	614	Dec	525	550	532
Sep	630	616	1996 Jan	525	550	532
Oct	700	697	Feb	525	550	532
Nov	700	685	Mar	525	550	532
Dec	700	670	Apr	525	550	532
1995 Jan	750	721	May	525	550	532
Feb	750	731	Jun	525	550	532
Mar	825	803	Jul	525	550	532
Apr	825	855	Aug	525	550	532

Source: PulpTrade (Pulpmarket News)

Raw prices of bleached eucalyptus pulp are converted into US\$ at monthly exchange rates

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JAPAN • by Paul Abrahams in Tokyo

Land of the sinking profits

There are few rays of hope for Japan's industry as the sun sets on record profits

Japan's paper companies are going through the shredder, and they have only themselves to blame. The cause is familiar: they have yet again invested heavily in new capacity and are now reaping the harvest in the form of plummeting prices and tumbling profits.

Almost all first-half results were down – and a far cry from the record profits achieved just two years ago. The markets have been unimpressed. They are predicting a gloomy future: the sector's shares are trading at a 10-year low.

It is true that weak

demand, one part of the problem, is beyond industry control. The Japanese economy is stagnating at best and at worst is heading into recession. Daiwa Research Institute, admittedly among the most pessimistic among Japanese forecasters, predicts the country's gross domestic product will contract 0.5 per cent in the year to March. Overall demand for paper continues to grow – reflecting increasing use of personal computers in Japan. But this is expanding at just 3 per cent, far slower than expected, according to Simone Cumille, paper analyst at Jardine Fleming. Demand for some grades is weak, particularly for corrugated board and sheet paper. Unsurprisingly, inventories are unusually high.

Shipments are at record levels, but the industry is

plagued by over-supply. In June, Nippon Paper brought on 240,000 tonnes a year of new coated paper capacity. Oji Paper has also just started another 240,000 tonnes a year coated paper machine, and Hokutsu is due to add a similar line for the same product next year. In high-grade paper, Mitsubishi added 120,000 tonnes a year in July. In all, says Jeff Sacknowitz, paper analyst at HSBC James Capel in Tokyo, the industry has added 18 per cent of new coated paper capacity – far ahead of demand.

The result of this supply-demand imbalance is a collapse in prices. Between October 1994 and the same month this year, overall prices have plunged 33 per cent. The falls show no signs of slowing. In the six months to September, they dropped

about 5 per cent. Oji Paper says during that period sheet paper prices fell 5.4 per cent, packaging materials 1.5 per cent and paperboard 2.2 per cent. Prices for hygiene paper – typically tissues – are at a 10-year low.

There were hopes that pricing discipline could be instilled after September, but prospects are poor. Some grades' prices are slipping, even though October and November are traditionally high-demand months. "The full effect will become apparent this month and in January," says Mr Sacknowitz. "Oji Paper has been limiting its production increases, but with a new machine coming on-line, they are unlikely to hold back."

It was not supposed to be this way. The industry has rationalised heavily in recent years and should

have been able to control prices. Since 1993, three big companies have disappeared following mergers. In 1993, Jujo Paper and Sanyo-Kokusaku Pulp merged to form Nippon Paper, Japan's second largest paper group by sales. In the same year, Oji Paper merged with Kanazaki Paper to form the country's biggest paper manufacturer. Then last year, New Oji merged with Honshu Paper to create Oji Paper.

In some respects the increasingly oligarchical structure has helped. During the last upturn, the industry added 4m tonnes a year of capacity. This cycle, the additions have been limited to just 2m tonnes. Even so, this is clearly still too much.

Moreover, the other benefits of the mergers – in terms of cost-savings – have not really come through.

Japanese companies are notoriously reluctant to make redundancies. The cost savings at Oji Paper, for example, have been negligible. There was little product overlap between New Oji and Honshu, which was essentially a paperboard manufacturer. Admittedly, there have been some savings in administration and distribution. But, overall, the synergies are small. During the six months to September, general and administration costs as a proportion of sales actually increased from 15 per cent during the same period last year to 15.9 per cent.

Indeed, while the paper groups appear to be doing little to reduce the costs under their control, they are being hammered by raw material costs. A high proportion of Japan's wood chip

and pulp is imported and is therefore dollar denominated. Analysts estimate that up to half of all Japanese paper companies' raw material costs are denominated in dollars. Last year the dollar was valued on average at ¥113. This year, so far the average is ¥122 and deteriorating. Mr Sacknowitz estimates that for each yen the dollar appreciates, about ¥560m is knocked off the profits of leading paper companies.

The great fear for Japanese paper companies is that a collapse in demand in other Asian countries – combined with a fall in their currencies – will lead to a surge of foreign paper imports. However, there appears to be no real danger of a significant increase in import penetration. In theory, Japan should be a huge market for Asian and US exporters. Production costs in the US and Asia are about half that in Japan, because of lower electricity and labour costs and

cheaper local pulp and chip procurement. Yet imports account for only 7.5 per cent of all shipments, according to Jardine Fleming.

A likely reason for low import penetration is that the paper makers often hold substantial shareholdings in the wholesalers, and this makes it extremely difficult for overseas importers to make headway. Indonesian manufacturers have set up a sales office in Japan, but progress has been slow. How long this can continue is moot: the US, in particular, is showing increasing irritation at the low level of import penetration after a three-year agreement ending in April failed to meet its targets.

What is certain is that the Asian currency crisis will hurt Japanese exports. This will exacerbate the problem of domestic over-capacity. With weak demand likely to continue, and pricing power, the Japanese paper industry's problems are set to appear any time soon.

EMERGING PRODUCERS Indonesia

Survival of the cheapest

The Indonesian sector should weather the crisis as operating costs plummet

Indonesia's pulp and paper industry, already one of the world's most competitive, is likely to be one of very few sectors to emerge from the country's current economic crisis stronger and more competitive. Its rapid expansion has left heavy debts in the midst of low prices and growing competition for Indonesian timber.

Brett Hutton, chief financial officer at Asia Pacific Resources International (APRI), the pulp producer, predicted that the sharp depreciation of the Rupiah – by more than 30 per cent in recent months – would bring a net 10 to 15 per cent reduction in operating cost. APRI's pulp production cost stood at \$207 per tonne before the depreciation.

"Sixty per cent of our cost is Rupiah-based," Mr Hutton

says. "Approximately half of the cost is wood. The principal part of the wood cost is labour."

Before the Rupiah dropped, the cost of Indonesian wood ranged from \$80 to \$110 per tonne, compared to \$120-\$150 in North America, \$190 to \$240 in Europe and \$100 to \$110 in Brazil. This cost advantage had allowed Indonesia to expand rapidly, both in pulp production and further into paper products. Production of paper-grade wood pulp in Indonesia rose by 14.7 per cent in 1996 and production capacity reached 2.75m tonnes. More pulp and paper mills came on-line this year, and Barito Pacific, a leading timber company, has obtained financing for yet another pulp mill.

Indonesia's producers are well located, as all of its neighbours are net importers. Demand in the region is growing faster than elsewhere. Before the currency crisis hit, industry analysts said demand in Asia would exceed supply by 10.9m

tonnes of pulp and 12.4m tonnes of paper by 2012. Indonesia exported \$573m worth of pulp and paper in the first five months of 1997, compared to \$554m in 1996.

But Mr Hutton maintains that Indonesian paper can undercut its competitors as far as southern Europe, because producers can profit from low shipping fees, as ships tend to export more to south-east Asia than back and need cargo to pay for the trip home.

And it has a domestic market of 200m people who are only beginning to consume paper products. "Our consumption of paper right now is only 17 kilos per capita," says Suharsono Kramadibrata, president director of the new Kiani Kertas pulp mill. "The potential market is really big."

April, part of Raja Garuda Mas Group, plans a 30 per cent share swap with UPM-Kymmene to market office paper in Europe and expand jointly in Asia. Its largest competitor, Asia Pulp & Paper, part of Sinar Mas

Group, has teamed up with Itochu with an ambitious target of \$800m in annual exports to Japan, one-third of its expected total exports this year.

April and APP have both moved into China, and APP has also set up plantations and pulp and paper plants in India and Malaysia. April is about to open a paper mill to become less dependent on pulp prices; APP plans to use all of its pulp in new and existing paper mills by the year 1999 and expand into stationery, which is less price sensitive than unquoted paper.

High debt, however, has left Indonesia's producers vulnerable to the roller coaster ride in prices in recent years. Indonesia's pulp and paper plants were badly affected by the sharp slump in prices in 1996 as many were new and had yet to pay off start-up loans.

April reported a net loss of \$76.4m for 1996 and \$8.6m for the first half of 1997. April faces \$1.8m in consolidated debt, with plans to spend



This year's fires show the risks of rushed development. Jonathan Hoare

another \$1.2bn on expansion by the end of 1998. But both April and APP insist that their debts are long-term and protected from the depreciation as the balance sheets are in dollars.

Kiani Kertas, a pulp mill of the Kallimanis Group which opened in August, was hard pressed to obtain \$975m in financing in the midst of last year's pricing slump. It borrowed \$400m in Rupiah at high interest rates, \$120m offshore and

der from "intra-group lending". President Suharto offered the company, owned by his golf partner, a Rp250bn loan out of the country's reforestation fund after many off-shore lenders declined. Suharsono Kramadibrata says his mill will need a pulp price of at least \$500 to break even. "It's a matter of luck," he says.

Indonesia has been widely criticised for plundering its forests for the timber industry and, more recently, pulp and paper. Local environ-

mental groups such as Walhi have also protested against chlorine gas emissions and discharges into the rivers from pulp and paper mills.

Maya Sarah, a leading member of Walhi, says the smaller pulp and paper mills, which use bamboo and bushes as raw material, tend to be the most active polluters because they cannot afford water treatment facilities. But she adds that river pollution data indicate that production at some larger plants is not halted when water treatment plants are shut down for repairs.

Walhi and others have also criticised pulp and paper mills for buying timber that is felled illegally by locals. Mr Hutton concedes that this happens in some factories.

April used to source 20 per cent of its timber outside its concessions but is now 89 per cent self-supporting, he said.

The massive forest, bush and peat bog fires that hit much of Indonesia this year have highlighted the risk of rushed development. Most large pulp and paper industries reported marginal damage to their plantations.

They did face disruption when the government briefly suspended plantations which had fires raging on their territory, though most of the cancelled licences belonged to palm oil firms.

Pudjo Rahardjo, an Indonesian environmental scientist based in Brisbane, predicts that the main challenge will be to ensure wood supplies. Government targets for timber production are only 47.7m cubic metres, compared to an expected need for 65m cubic metres. "Due to this gap, the industry will be working under lower capacity or trying to fill the capacity in other ways, including illegal cutting and trading," he says.

Early arrivals were given non-renewable concessions for cutting mixed tropical forest and were granted plantation concessions later. But the government has already stopped handing out new felling concessions and requires newcomers to inject large funds into plantations from the very start. That, as much as the low world prices, should put a damper on growth.

Sander Thoenes

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6 WORLD PULP AND PAPER



Leading the way: in 1995 Scott Paper Company acquired Kimberley-Clark Corporation for stock valued at \$6.8bn. When Albert J. Dunlop, chairman and CEO of Scott Paper Company (above left), completed the agreement with Wayne R. Sander (above right), chairman and CEO of Kimberley-Clark Corporation, they encouraged greater

consolidation throughout the pulp and paper industry worldwide. Mergers could change the business landscape for local operations like this Boise Cascade mill in Maine (left). Like many other North American companies, Boise Cascade is reviewing its future options, but it seems likely that it too will move towards consolidation.

NORTH AMERICA • by Scott Morrison in Toronto

New calls for sector consolidation

The Asian fiscal crisis caught the fragmented North Americans off guard

Having suffered through a difficult 18 months, the North American pulp and paper industry was, until recently, optimistic about the outlook continuing to improve. Prices were rising and demand, fuelled by strong economies in the US and Canada, was growing.

But the industry will likely have to wait a little longer, as the Asian financial crisis has resulted in a reduction in demand for pulp, paper and board in that region. Observers are not yet sure exactly how the industry will be affected by the problems in the Asia Pacific region, an area which accounted for almost one-

third of global paper and board consumption in 1996. The situation grew more serious for pulp exporters when South Korea, one of the world's largest pulp importers, was caught up in the crisis.

Optimistic forecasts suggest the outlook for North American pulp and paper producers will not improve until the third quarter of 1998, although analysts were still waiting to see how the situation develops in Japan and China, the world's second and third largest paper and board consumers.

However events unfold, the short-term outlook for the North American industry is bleak. Devalued currencies will cut Asian demand for paper and board, while pulp exporters have already reported a drop in demand, as much as 50 per cent in some cases, from Asian clients. Devalued cur-

rencies will also make Asian producers of pulp, free sheet and newsprint much more of a competitive threat to US and Canadian producers.

The Asian crisis comes as the highly fragmented North American pulp and paper industry is already facing increasing competition from low cost producers in the southern hemisphere and Finnish companies recently strengthened by consolidation. These trends have put pressure on US and Canadian firms to streamline and consolidate to achieve economies of scale and reduce distribution costs.

Abitibi-Consolidated, which became the world's largest newsprint producer after Abitibi-Price merged with Stone-Consolidated earlier this year, expects to save \$500m because of the deal. Domtar, the Canadian forest products company, in October announced it would

merge its packaging division with Cascades' container board operations to form a joint venture that would benefit from the two companies' strengths, which include the geographic location of mills and mix of products. Fletcher Challenge Canada sold its US coated paper facility in September and has announced it will bolster its presence in newsprint and groundwood specialty papers.

More mergers and acquisitions are widely expected in 1998 as companies move to shed non-core assets. Fletcher Challenge is now eyeing paper mills owned by MacMillan Bloedel, Jefferson Smurfit, Champion International and Weyerhaeuser. Harmac Pacific intends to purchase two mills owned by Kimberley-Clark, the US consumer products company, for US\$540m. The sale, most likely to take place in Febru-

ary if Harmac is able to raise the capital through equity, will establish the company as Canada's leading pulp producer. Louisiana Pacific and Stone Container of the US recently announced they would divest their pulp production facilities. Boise Cascade and Champion are also moving to streamline.

Ailing MacMillan Bloedel, Canada's largest forest products group, has indicated it will likely spin off its less profitable operations following a corporate review. "They need to do what the Finns have done," said one industry analyst, referring to the recent wave of Scandinavian consolidation.

The pressure on US and Canadian companies has increased as the drop in Asian demand will keep prices from rebounding to expected levels. Producers in late 1997 tried unsuccessfully to raise northern bleached softwood kraft pulp prices from US\$610 per tonne to US\$650. Instead, analysts forecast the price will fall to US\$570 by March 1998 due to the Asian turmoil.

Paper products prices have been revised downward as well. Newsprint, which has been in high demand in 1997, had been expected to average US\$660 per tonne in 1998, up from an average of US\$580 this year. But more recent estimates suggest

newsprint will average about US\$625 throughout the upcoming year. Coated and uncoated fine papers were also expected to increase next year, but not as much as initially forecast. Liner board prices were still seen to increase significantly next year.

"In some respects, 1998 turns out to be a bit of a lost year with respect to commodity prices," said Frances Loo, forest products analyst with SBC Warburg Dillon Read. Consolidation, however, is only part of the solution to the North American industry's woes.

Prices will not post sustained gains until the industry successfully addresses its chronic overcapacity problem, which has kept pulp and paper prices volatile and relatively low throughout most of the 1990s. Analysts say utilisation rates must be above 93 per cent before prices come down, but operating rate in the industry was 88 per cent world wide in 1996.

"Any effort to improve pricing will be temporary without addressing overcapacity," said Sherman Chao, an analyst with Merrill Lynch in New York. The problem is bound to get worse due to a building spree by southern hemisphere pulp and paper producers that will add significant new capacity to

world markets in 1998.

The overcapacity problem has been aggravated by strong unions in Canada and provincial governments in British Columbia and Quebec that keep ailing mills alive. In a recent bid to save jobs, the British Columbia government spent C\$211m to buy 53 per cent of Skeena Cellulose, formerly Repap BC. Analysts say about 425,000 pounds of pulp could have been removed from the market had the province allowed the financially troubled mill to fail.

There are signs, however, that US and Canadian producers are beginning to address the issue. Despite the Asian and Latin American expansion, North American producers have refrained from launching significant expansion initiatives. Some suggest the industry ought to take a more proactive approach to the problem by closing high cost production facilities or scaling back production at operating mills, strategies that companies have been reluctant to adopt given the capital intensive nature of the industry.

"They are not as quick in shutting down capacity as they should be," said Chip Dillon, an analyst with Salomon, Smith, Barney. But corporate leaders have indicated they are more aware of

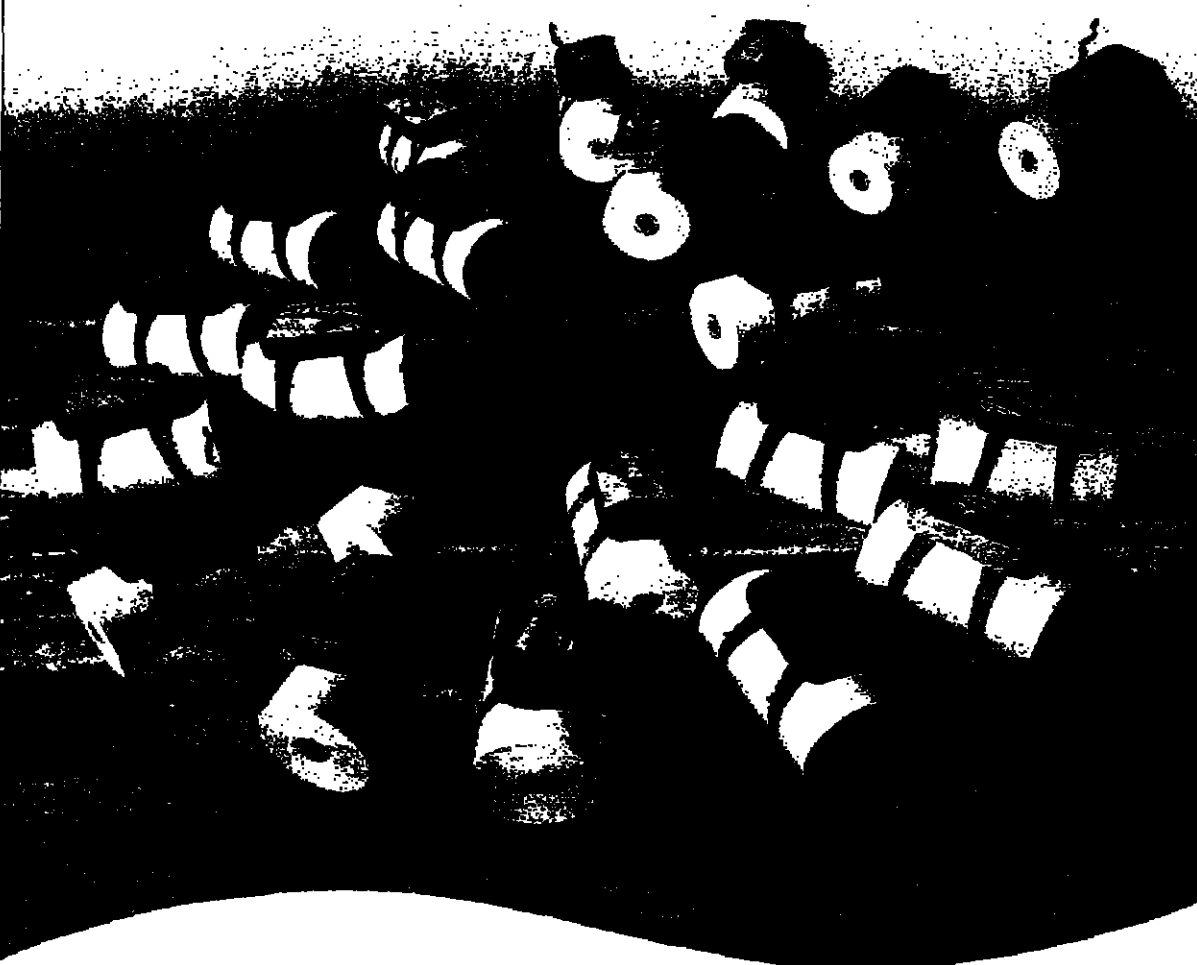
the need to more effectively manage production and inventory levels. While economies of scale might suffer from the reduction of output at specific mills, the industry as a whole would benefit from stronger, more stable prices. Weyerhaeuser has scheduled downturns that will take about 50,000 pounds of pulp out of the global market during the next three months, while Georgia Pacific and Stone Container have also recently announced production cutbacks.

Many of the challenges the industry must contend with are largely of its own making. The elder generation of North American pulp and paper executives are seen as too conservative to adapt to the rapidly changing marketplace.

Prompted by shareholders disgruntled by inadequate returns, a new generation of corporate leaders with financial, rather than engineering, backgrounds are slowly reforming companies that have for too long focused on market share rather than on rates of return. While low cost competitors in the southern hemisphere pose a threat to North American pulp and paper producers, US and Canadian firms must face up to the challenges by first putting their own operations in order.

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UPM-Kymmene has played an active role in the paper industry's consolidation and globalization to be able to respond better to the challenges of the future. Most recently, the company has entered into a strategic alliance in the fine paper business with an Asian partner, and acquired a US magazine paper supplier. These steps provide UPM-Kymmene with greater opportunities for global growth.

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EMERGING PRODUCERS Brazil

Brazil to face difficulties navigating stormy 1998

Only the cash-rich will sail smoothly through coming economic downturn

Next year is likely to be a tough one for Brazil's paper and pulp industry, especially for the majority of its 220-odd companies dependent on the domestic market. Only cash-rich companies protected from the prospect of near-zero growth in the Brazilian economy - either through exports or by supplying strong niche markets - will fare better.

In the longer term, however, Brazilian producers are well placed to take advantage of a growing market at home and of a strong competitive edge on export markets.

While the industry is dominated by a handful of big companies, only one or two have the scale to compete internationally. Consolidation is widely predicted, along with the entry of new foreign companies.

Brazilian producers enjoy several natural advantages. A tropical climate, fertile soils and abundant land and labour results in some of the lowest costs for wood worldwide. Eucalyptus trees reach maturity in just seven years, producing 45 cubic metres of hardwood per hectare per year, more than double the output of Brazil's nearest competitors. Softwood pines grown in the south are also among the highest yielding in the world.

Brazil is the world's seventh largest pulp producer, its 12th biggest paper producer and 10th biggest paper

consumer. While it is a net exporter of paper products, most producers are dedicated to supplying the domestic market.

This will make them particularly exposed to a slowdown in economic activity expected next year, the result of a government austerity package introduced to defend Brazil's currency due to the turmoil that took grip of global capital markets at the end of October.

The package included a doubling of the central bank's basic interest rate to more than 40 per cent a year, dealing a double blow to those producers carrying domestic debt. The industry has an average debt-to-equity ratio of 46 per cent - low by international standards, but expensive here.

The company ideally placed to ride out the domestic downturn is Aracruz, the world's biggest producer of bleached hardwood kraft pulp. It sells 95 per cent of its output overseas. While these markets are also likely to slow down in the first quarter, demand can be expected to recover later in the year.

Aracruz has the further advantage of holding the equivalent of about \$700m in cash, so it will benefit from higher interest rates.

Votorantim Celulose e Papel (VCP), part of Brazil's biggest family-owned conglomerate, will suffer less than others in the sector from high interest payments because its debt-to-equity ratio is low, about 14 per cent. A recent increase in pulp capacity should allow it to benefit from exporting. Paulo Vasconcellos, an analyst at ING Barings in Sao

Paulo, says exports as a share of total sales should rise from 34 per cent this year to 49 per cent in 1998.

Following investments of \$66m this year, VCP is well placed to tap Brazil's market for higher added value coated papers. While domestic consumption of papers grew just 0.5 per cent in the first three quarters, from 668,700 tons in 1996 to 672,300 tons this year, consumption of coated papers grew by 71.7 per cent, from 108,100 tons to 185,600 tons, according to company figures.

Growth in this market has been driven by the success of magazine and book publishing over the past three years, and by increasing use by marketers of direct mail.

Other leading companies face a tougher time ahead, at least in the medium term. Klabin, Latin America's biggest integrated manufacturer of paper products, sells about 80 per cent of its output at home and has a high debt-to-equity ratio.

Suzano, the second biggest paper and pulp maker in the region, is even more dependent on the domestic market, selling only about 4 per cent of production as exports. Short-term earnings should suffer further from its 55 per cent stake in Bahia Sul, an advanced and low-cost pulp and paper producer it operates in a joint venture with Companhia Vale do Rio Doce (CVRD), which has debts of about \$1bn.

Assuming the economy recovers towards the third quarter of next year, the industry's next priority will be consolidation so it can compete in global markets.

Increasingly, this means competing both at home and

abroad. Several foreign companies are active in Brazil through subsidiaries or minority holdings. The most recent entrant is Stora of Sweden, which formed a joint venture with Odebrecht, a Brazilian conglomerate with interests in construction, petrochemicals and forestry. The partners plan to invest \$1.5bn in a pulp operation in the northeastern state of Bahia, which is expected to produce 750,000 tons a year. Stora intends to use the pulp for its own plants in Europe, and in south-east Asia.

Consolidation among producers has been expected for some time, but little progress has been made.

This year, CVRD was privatised. Its buyer is a consortium led by CSN, a steel maker. Observers expected the company to sell its paper and pulp assets to concentrate on its core activities in iron ore mining. This has not happened, and CVRD seems intent on becoming a global paper and pulp producer. As well as owning its own forests and its interest in Bahia Sul, CVRD is a joint venture partner with a group of Japanese companies in Cenibra, Brazil's 11th biggest pulp producer. There are natural synergies between CVRD's operations and those of Aracruz. Talks took place but neither side wants to give up control.

Says Mr Vasconcellos at ING Barings: "The difficulty [with consolidation] is that almost all Brazilian companies are family owned, so everyone wants to buy and nobody wants to sell."

Jonathan Wheatley

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